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CITY OF FRANKLIN

Franklin, New Hampshire

FINANCIAL STATEMENTS

With Schedule of Expenditures of Federal Awards

June 30, 2016

and

Independent Auditor's Report

Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report on Compliance for Each Major Federal Program
and on Internal Control Over Compliance Required by the Uniform Guidance

Schedule of Findings and Questioned Costs

CITY OF FRANKLIN, NEW HAMPSHIRE

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GRZELAK AND COMPANY, P.C.

INDEPENDENT AUDITOR'S REPORT

GRZELAK AND COMPANY, P.C.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Franklin
Franklin, New Hampshire

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Franklin as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Franklin, as of June 30, 2016, and the respective changes in financial position and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 through 22, budgetary comparison information, on page 63, schedule of funding progress for other postemployment benefits on page 65, schedule of the city's proportionate share of net pension liability on page 64, and schedule of city contributions on page 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Franklin's basic financial statements. The combining nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget the Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2017, on our consideration of the City of Franklin's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Franklin's internal control over financial reporting and compliance.

Grzelak and Co., P.C.

GRZELAK & COMPANY, P.C., CPA's

Laconia, New Hampshire

June 20, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2016

The City of Franklin's management team offers this narrative overview and analysis of the financial activities of the City of Franklin for the fiscal year ended June 30, 2016. The City's financial performance is discussed and analyzed in conjunction with the accompanying financial statements and disclosures following this section.

Financial Highlight

- As of the close of the current fiscal year, total assets and deferred outflows exceeded liabilities and deferred inflows for governmental and business activities by \$17,117,336 (net position). This is an increase of \$678,822 over the prior year.
- As of the close of the current fiscal year, total net position for governmental activities was \$4,330,546 (-\$12,082,749 unrestricted) and total net position for business like activities was \$12,786,791 (\$395,394 unrestricted). The negative unrestricted net position for governmental activities is due to the implementation of Governmental Accounting Standards Board Statement 68 which requires the City to record its proportionate share of unfunded pension liability of the New Hampshire Retirement System's cost sharing employer defined benefit pension plan.
- As of the close of the current fiscal year, the City of Franklin's governmental funds reported combined ending fund balances of \$6,588,386, an increase of \$137,256 over the prior year. Of the combined ending fund balances, \$3,211,794, an increase of \$454,108 over the prior year, is available for spending at the government's discretion (unassigned fund balance). The City appropriated the increase to fund balance in FY2017.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,222,680, or 12.16 percent of total general fund expenditures.
- At the close of the current fiscal year, total bonds & notes outstanding was \$10,635,325, an increase of \$481,724 over the prior year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Franklin's basic financial statements. The City of Franklin's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Franklin's finances. There are two basic governmental-wide financial statements: the statement of net position and the statement of activities. All activities included within the government-wide financial statements are measured and reported using the economic resources measurement focus and the accrual basis of accounting similar to a private-sector business.

- The *statement of net position* presents information on all of the City of Franklin's assets and deferred outflows and liabilities and deferred inflows, with the difference reported as *net position* as opposed to fund balance as shown on the fund statements. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Franklin is improving or deteriorating.
- The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2016

expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Franklin and are represented by Statement A and Statement B of the accompanying financial statements.

- **Governmental Activities** represent most of the City's basic services and are principally supported by taxes, grants and intergovernmental revenues. The governmental activities of the City of Franklin include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation.
- **Business-Type Activities** are normally intended to recover all or a significant portion of their costs through user fees and charges. The business-type activities of the City of Franklin include water and sewer Activities.

The government-wide financial statements include not only the City of Franklin (known as the primary government), but also a legally separate dependent school district, Franklin School District, which the City of Franklin is financially accountable. Financial information for this *component unit* is blended with the financial information presented for the primary government itself.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Franklin can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Franklin maintains sixteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and capital fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Franklin adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

- **Proprietary funds.** The City of Franklin maintains two types of proprietary funds: enterprise and internal service fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Franklin uses enterprise funds to account for its water and sewer activities.

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2016

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, both of which are considered to be major funds of the City of Franklin.

Internal service funds report "any activity that provides goods and services to other funds, departments or agencies of the primary government and its component units, or to other governments, on a cost reimbursement basis". The City of Franklin uses an internal service fund to account for the fuel depot. Because the nature of these funds is internal, internal service funds are combined with governmental activities on the government-wide financial statements. The fuel depot was decommissioned and closed during the current period. The remaining balance \$757 of the internal service fund was transferred to the general fund (as the largest contributor to the internal service fund over the years) and the internal service fund was closed during fiscal year 2016.

- **Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Franklin's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* which is required to be disclosed by the accounting principles generally accepted in the United States of America. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2016

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial standing. Changes in net position may be observed and used to discuss the changing financial position of the City as a whole.

Financial Position. The following table provides a summary of the City's net position at June 30 for the current and prior two fiscal years:

City of Franklin, New Hampshire Net Position (in Thousands)									
	Governmental Activities			Business-Type Activities			Total Primary Government		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Current and other assets	15,886	15,039	14,809	2,472	2,622	2,947	18,358	17,661	17,756
Capital assets	18,068	18,014	18,220	19,649	19,081	19,184	37,717	37,095	37,404
Total assets	33,954	33,053	33,029	22,121	21,703	22,131	56,075	54,756	55,160
Deferred outflow of resources	1,685	1,384	1,306	53	49	44	1,738	1,433	1,350
Total assets and deferred outflow of resources	35,639	34,437	34,335	22,174	21,752	22,175	57,813	56,189	56,510
Current liabilities	2,559	1,529	1,496	1,284	208	7,185	3,843	1,737	8,681
Long term liabilities outstanding	21,230	20,836	23,343	6,965	7,435	775	28,195	28,271	24,118
Total liabilities	23,789	22,365	24,839	8,249	7,643	7,960	32,038	30,008	32,799
Deferred inflow of resources	7,520	8,502	6,281	1,139	1,241	1,242	8,659	9,743	7,523
Total liabilities and deferred inflow of resources	31,309	30,867	31,120	9,388	8,884	9,202	40,697	39,751	40,322
Net Position:									
Invested in capital assets, net of related debt	14,389	14,336	14,041	12,239	12,172	12,007	26,628	26,508	26,048
Restricted	2,024	2,046	2,055	152	152	152	2,176	2,198	2,207
Unrestricted	(12,083)	(12,812)	(12,881)	395	545	814	(11,688)	(12,267)	(12,067)
Total net position	4,330	3,570	3,215	12,786	12,869	12,973	17,116	16,439	16,188

Note: Governmental Accounting Standards Board Statement 68, Accounting & Financial Reporting for Pensions implemented in 2015 thus restating 2014 net position

The City of Franklin, assets and deferred outflows exceeded liabilities and deferred inflows by \$17.1 million, \$16.4 million and \$16.2 million at the close of fiscal years 2016, 2015 and 2014, respectively. Governmental activities assets exceeded liabilities by \$4.33 million, \$3.57 million and \$3.22 million at the close of fiscal years 2016, 2015 and 2014, respectively.

The largest portion of the City of Franklin's net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. As of year-end, net investment in capital assets is \$26,628,717, an increase of \$121,140 over the prior year. The City of Franklin uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Franklin's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Franklin's net position, \$2,175,975 or 12.7%, represents resources that are subject to external restrictions on how they may be used. The remaining balance is *unrestricted net position* of \$(11,687,355). At the end of the current fiscal year, the City of Franklin is able to report positive balances in all three categories of net position for business-type activities and positive balances in Net Investment in Capital Assets and Restricted categories for governmental activities and the City's net position as a whole. The negative Unrestricted Net Position category is a result of the implementation of the Governmental Accounting Standards Board's Statement 68 Accounting and Financial Reporting for Pensions which requires the City to record its proportionate share of the unfunded liability of the New Hampshire Retirement System, a multiple employer cost sharing defined benefit plan. The City's governmental activities will continue to report a deficit until the funding

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2016

mechanisms and asset returns improve in the state system. Please refer to financial statement note 4-A for additional information on the pension liability and financial statement note 4-B for additional information on the other post-employment benefits (OPEB) liability.

Financial Results. The following is a summary of condensed government-wide financial data of changes in net position for the current and prior two fiscal years:

City of Franklin, New Hampshire Changes in Net Position (in Thousands)

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Revenues									
Program Revenue:									
Charges for Services	1,530	1,939	2,051	2,748	2,570	2,485	4,278	4,509	4,536
Operating Grants and Contributions	9,885	9,874	9,564	7	7	7	9,892	9,881	9,571
Capital Grants and Contributions	207	409	18	59	79	173	266	488	191
General Revenues:									
Property Taxes	11,334	11,146	10,914	-	-	-	11,334	11,146	10,914
Other Taxes	248	350	311	-	-	-	248	350	311
Licenses and Permits	1,281	1,184	1,113	-	-	-	1,281	1,184	1,113
Grants and Contributions not restricted to specific programs	35	22	753	-	-	-	35	22	753
Interest Earnings	53	33	73	-	-	-	53	33	73
Miscellaneous	1,568	782	788	-	-	-	1,568	782	788
Total Revenues	26,141	25,739	25,585	2,814	2,656	2,665	28,955	28,395	28,250
Expenses									
Functional Expenditures:									
General Government	1,729	1,796	1,950	-	-	-	1,729	1,796	1,950
Public Safety	5,023	5,028	4,855	-	-	-	5,023	5,028	4,855
Highway and Streets	1,481	1,592	1,573	-	-	-	1,481	1,592	1,573
Sanitation	813	789	724	-	-	-	813	789	724
Health	188	202	194	-	-	-	188	202	194
Welfare	82	73	71	-	-	-	82	73	71
Culture and Recreation	918	864	813	-	-	-	918	864	813
Conservation	1	1	1	-	-	-	1	1	1
Economic Development	45	45	45	-	-	-	45	45	45
School	14,750	14,560	14,150	-	-	-	14,750	14,560	14,150
Debt Service	135	349	189	-	-	-	135	349	189
Capital Outlay	216	85	232	-	-	-	216	85	232
Proprietary Activities	-	-	-	2,896	2,760	3,056	2,896	2,760	3,056
GASB 68 Accounting & Financial Reporting for Pensions implementation	-	-	16,147	-	-	534	-	-	16,681
Total Expenses	25,381	25,384	40,944	2,896	2,760	3,590	28,277	28,144	44,534
Change in net position before transfers	760	355	(15,359)	(82)	(104)	(925)	678	251	(16,284)
Transfers	-	-	-	-	-	-	-	-	-
Increase (Decrease) in net position	760	355	(15,359)	(82)	(104)	(925)	678	251	(16,284)
Net Position, beginning, as restated	3,570	3,215	18,574	12,869	12,973	13,898	16,439	16,188	32,472
Net Position, ending	4,330	3,570	3,215	12,787	12,869	12,973	17,117	16,439	16,188

Governmental activities. Governmental activities increased the City of Franklin's net position by \$760,747. This is largely due to increased tax levy & higher than expected receipts from licenses and permits, particularly vehicle registrations.

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2016

Business-type activities. Business-type activities decreased the City of Franklin's net position by \$81,924. This is largely due to many unforeseen expenditures associated with freeze ups as a result of the cold winter with no snow cover.

Financial Analysis of the Government's Funds

As noted earlier, the City of Franklin uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Franklin's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Franklin's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the close of the current fiscal year, the City of Franklin's governmental funds reported combined ending fund balances of \$6,588,386, an increase of \$137,256 over the prior year. Of the combined ending fund balances, \$3,211,794 is available for spending at the government's discretion (unassigned fund balance). The remainder of fund balance is *nonspendable, restricted, committed or assigned* to indicate that it is not available for new spending because it has already been obligated 1) to liquidate contracts and purchase orders of the prior period (\$474,251), 2) legally restricted for permanent fund and capital purchase purposes (\$2,034,682), or 3) for a variety of other restricted purposes (\$867,660).

The general fund is the chief operating fund of the City of Franklin. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,222,680, while total fund balance reached \$4,540,940. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 12.2 percent of total general fund expenditures, while total fund balance represents 17.1 percent of that same amount.

In June 2011, the City Council adopted a revision to the fund balance policy to come into compliance with GASB Statement No. 54. In addition, the Council moved the target unassigned fund balance from 5% to 15% of general fund expenditures. In 5 fiscal years, the City has over doubled its unassigned fund balance to 12.2% of appropriated expenditures.

Proprietary funds. The City of Franklin's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Proprietary fund financial statements use the accrual basis of accounting, like the government-wide financial statements. Therefore, there is no reconciliation needed between the government-wide financial statements for business type activities and the proprietary fund financial statements.

Unrestricted net position of the proprietary funds at the end of the year amounted to \$395,394. The total net position decreased over the prior year by \$149,372. The decrease is largely attributed to the implementation of GASB 68 and other factors addressed in the discussion of the City of Franklin's activities in the government-wide financial analysis above.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was \$1,709,030 which represents the following:

- Prior year encumbrances/carryovers totaling \$640,471
- Prior year non-lapsing appropriations totaling \$598,375
- Current year Council Adopted supplemental appropriations totaling \$470,184

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2016

Current year supplemental appropriations adopted by the City Council were:

- \$129,524, air packs for fire personnel , funded by a federal grant (FEMA)
- \$50,000, Rural Technical Assistance grant for economic development, funded by federal grant (USDA)
- \$12,000, gym doors/fans, cameras, gutters at Bessie Rowell Community Center, funded by capital reserve fund
- \$93,750, Drug Free Communities grant for Mayor's Drug Task Force, funded by federal grant (HHS)
- \$11,000, rescue trailer storage barn at fire department, funded by Turcotte trust fund
- \$159,162, road paving, funded from Municipal Transportation Improvement capital reserve fund
- \$8,748, speed trailer & radar for police department, funded by federal grant (National Highway Traffic Safety Administration)
- \$6,000, video laryngoscope for ambulance, ½ funded by donation (Concord Eagles Club), ½ funded by Fire Department Memorial Account trust fund

The difference between the final amended budget and actual results is a positive variance of \$3,892,043. Revenues and budgetary fund balance exceeding budgeted amounts by \$2,583,924, budgetary fund balance exceeding budgeted amount by \$2,817,503 and total of other revenues coming in under estimates by \$233,579. Expenditures were less than the estimated budget by \$1,308,120. Significant variances include:

- Positive variance of \$2,817,503 in beginning budgetary fund balance represents the prior year fund balance not appropriated to support the current year budget but held for unanticipated and/or emergency expenditures
- Positive variance of \$152,450 in licenses, permits & fees largely represents motor vehicle registration revenues coming in higher than estimated
- Negative variance of \$242,945 (net) intergovernmental revenues primarily consists of unexpended grant projects carried forward to the next fiscal year
- Negative variance of \$49,663 (net) charges for services is largely made up of ambulance revenue write offs and a return of contribution from the Concord Regional Waste Service that was not realized
- Positive variance of \$110,084 in executive expenditures is mainly due to unspent contingent and nuisance abatement appropriations
- Positive variance of \$193,489 in police department is largely due to changes in personnel and benefit choices
- Positive variance of \$506,525 in highways, streets and bridges consists of savings from the mild winter and unfinished projects due to staffing shortages
- Positive variance of \$49,420 in welfare due to the director coordinating with other resources available for the needs of the clients
- Positive variance of \$233,517 in capital outlay for projects not completed in the current year and carried forward to fiscal year 2017
- Positive variance of \$257,966 in school department which largely consists of unexpended building & maintenance and student transportation

Capital Asset and Debt Administration

Capital Assets. The City of Franklin's total investment in capital assets for its governmental and business type activities as of June 30, 2016, amounts to \$37,717,385 (net of accumulated depreciation), an increase of \$621,974 over the prior year. This investment in capital assets includes monuments, land, land improvements, buildings, infrastructure and utility systems, improvements, machinery and equipment, park facilities, roads, highways, bridges, and construction in progress.

City of Franklin, New Hampshire
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City of Franklin, New Hampshire Capital Assets Net of Depreciation (in Thousands)

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Land	1,229	906	906	65	65	65	1,294	971	971
Monuments	61	61	61	-	-	-	61	61	61
Construction in Progress	127	399	102	334	104	88	461	503	190
Land Improvements	153	162	171	-	-	-	153	162	171
Buildings and Improvements	11,773	11,977	12,242	428	441	442	12,201	12,418	12,684
Machinery, Vehicles and Equipment	2,608	2,431	2,579	553	362	230	3,161	2,793	2,809
Infrastructure	2,118	2,078	2,159	18,269	18,109	18,359	20,387	20,187	20,518
Total	18,069	18,014	18,220	19,649	19,081	19,184	37,718	37,095	37,404

Major capital asset events during the current fiscal year included the following:

- Video laryngoscopes
- Police radio receiver
- Traffic light video detection system
- City Hall handicap lift
- Bucket truck
- 1-Ton dump truck
- Fire department air packs
- Digital portable police radios
- Air conditioning units for Council Chambers
- Fencing for impound lot
- Bessie Rowell Community Center building improvements
- HVAC system at police department
- Storage barn at fire department
- Ferris Mower
- Haynes Brook culvert project (in progress)
- Playground equipment
- (2) 2016 Ford Interceptor cruisers
- Base radio (municipal services department)
- PA & Audio system (fire department)
- (2) Solar message boards
- John Deere Gators (police department, military surplus)
- Forklift (military surplus)
- Energy improvements (city hall, Proulx, municipal services garage, police station, Bessie Rowell)
- Cross Street tank rehabilitation/Route 3/Industrial Park Drive water main replacement (in progress)
- Water main replacements (Anderson, Nelson, Carr, Chance Pond, Terrace)
- Prospect Street resurfacing project (in progress)
- Paving & reclaiming (Peabody Place, Flaghole, Lincoln, Old So Main, Holy Cross and Industrial Park Drive)
- Volvo Excavator
- (2) Vans (water & sewer departments)
- Sewer storage shed (Tannery Street)
- Miscellaneous equipment (school district)

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2016

Long-term debt. At the end of the current fiscal year, the City of Franklin had total bonded debt and notes outstanding of \$10,635,325. Of this amount, 100% comprises debt backed by the full faith and credit of the government; however, \$7,245,502 bonds & notes are attributable to the Water and Sewer proprietary funds, and \$100,000 is attributable to the District Courthouse. The City of Franklin is financially liable for the debt due and owing for the District Courthouse Building, but has been reimbursed annually by the State of New Hampshire. Of the \$7,245,502 proprietary note debt, the State of New Hampshire has agreed to offset \$1,109,056 in the form of a revolving loan. The City of Franklin is also financially liable for general obligation debt outstanding for its component unit, Franklin School District, which amounts to approximately \$2,421,055 of the total \$10,635,325 of bonded/note debt. Further information regarding the School District's indebtedness may be found in their annual audit report.

City of Franklin, New Hampshire Long Term Debt (in Thousands)

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
General Obligation Bond	2,621	3,113	3,670	3,124	3,343	3,450	5,745	6,456	7,120
Accrued Landfill Postclosure	174	180	187	-	-	-	174	180	187
Compensated Absences	394	384	321	19	18	20	413	402	341
Capital Leases	289	434	344	164	-	-	453	434	344
Other Notes	769	132	164	4,121	3,566	3,727	4,890	3,698	3,891
Net Pension Liability	16,034	15,096	17,453	532	508	578	16,566	15,604	18,031
Other Post Employment Benefits	1,855	1,497	1,204	-	-	-	1,855	1,497	1,204
Total	<u>22,136</u>	<u>20,836</u>	<u>23,343</u>	<u>7,960</u>	<u>7,435</u>	<u>7,775</u>	<u>30,096</u>	<u>28,271</u>	<u>31,118</u>

During the current fiscal year, the City of Franklin's total debt increased by \$1,825,921 (6 percent). Key factors in the net increase are:

- Reductions in outstanding bond/note debt principal in the amount of \$816,453
- Reductions in outstanding capital lease principal in the amount of \$239,215
- Reduction in landfill post-closure obligation in the amount of \$5,943
- Reduction in compensated absences payable of \$267,054
- Reduction in Other post-employment benefits obligations of \$138,696
- Note issued for Prospect Street Road Rehabilitation project in the amount of \$505,000
- Note issued for Streetlight LED project in the amount of \$165,200
- Capital Lease entered into for the purchase of (2) Cruisers in the amount of \$58,428
- Note from state revolving fund for the Cross Street Tank Rehabilitation/Route 3 & Industrial Drive Water Main Replacement in the amount of \$627,978
- Capital Lease entered into for the purchase of a Volvo wheeled excavator in the amount of \$199,895
- New compensated absences payable of \$278,028
- An increase in other post-employment benefits of \$497,106
- Increase in net pension liability of \$961,647

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2016

New Hampshire Municipal Finance Act, Chapter 33 of the State Statutes limit the amount of general obligation debt a local governmental entity may issue to a percentage of its total equalized assessed valuation as computed by the Department of Revenue Administration. State statute allows certain debts (betterment of water and sewer systems, energy production projects, small scale power facilities, etc) to be excluded from the debt capacity computation.

As of October 2015, Franklin's valuation was \$524,340,346 with an equalization ratio of 98.2%, yielding an estimated equalized base valuation of \$533,951,473. Per NH Statute, the City is required to maintain debt ratios with maximums as follows:

Debt Limits

Municipal Debt (3% of the base valuation per RSA 33:4-a)	\$16,018,544
School Debt (7% of the base valuation per RSA 33:4-a)	\$37,376,603
City (Municipal and School District combined debt limitation of 9.75% per RSA 33:4b)	\$52,060,269
Water (10% of the base valuation per RSA 33:5-a)	\$53,395,147
Sewer	Exempt

Borrowing Capacity (as of June 30, 2016)

	<u>Maximum</u>	<u>Outstanding</u>	<u>Available</u>
General Debt	\$16,018,544	\$968,771	\$15,049,773
School Debt	\$37,376,603	\$2,421,052	\$34,955,551
Water	\$53,395,147	\$ 6,751,366	\$46,643,781

Additional information on the City of Franklin's long-term debt can be found in the notes to financial statements, later in this document.

Economic Factors and Next Year's Budgets and Rates

Taxation Cap. Pursuant to Franklin City Charter, the city manager is responsible for preparing an annual budget and submitting the budget to the Franklin City Council one month prior to the start of the new fiscal year. The annual budget is to be presented to the city council for action no later than the 27th day of the first month of the fiscal year (July). If the city council does not take action within 30 days, the manager's budget shall automatically become effective.

In November, 1989 the voters of the City of Franklin amended the budget procedures outlined under the city's charter §C-32 limiting the amount of taxes that can be raised to support annual operations. The formula limits the amount to be raised by the prior calendar year's Consumer Price Index (national average). The charter amendment provides cap exceptions with a 2/3 vote of the city council. Exceptions from the tax cap include school or city debt service or any capital expenditures deemed necessary by the council.

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2016

In October 2002, the Charter was amended again and the tax cap was modified to include a calculation to include newly assessed property value from the prior year (April 1). The calculation includes all new value from April 1 of the prior tax year multiplied by the prior calendar year's tax rate.

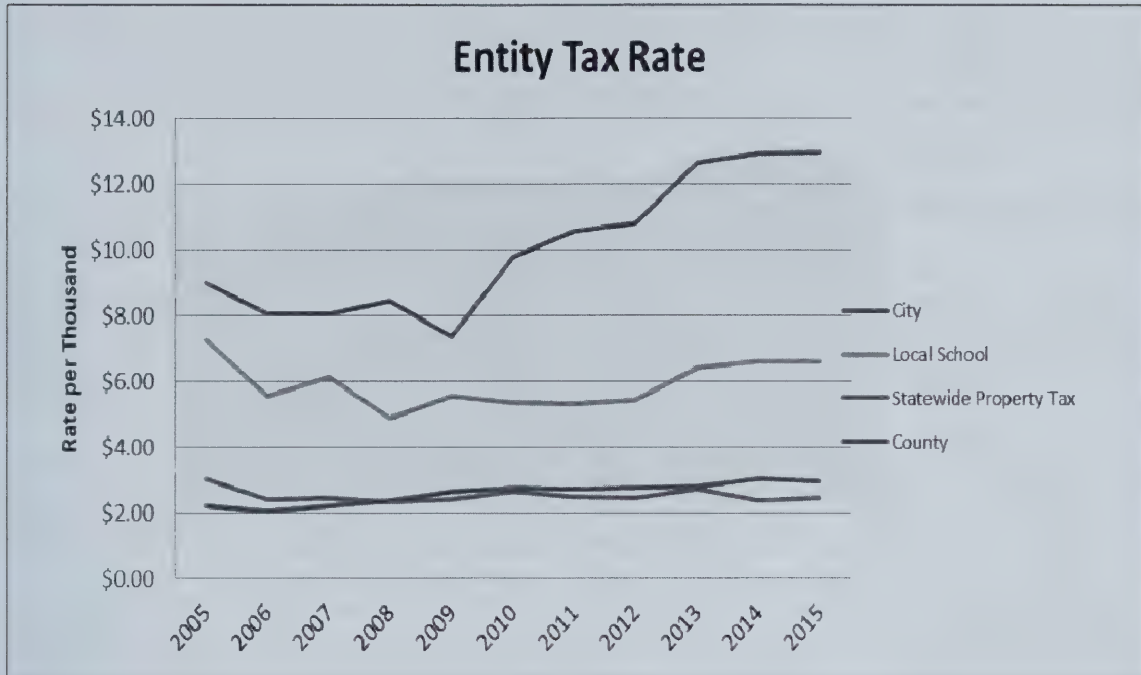
The amended tax cap formula is as follows:

	Total Amount of Property Taxes Assessed in the Prior Year As Calculated by Department of Revenue Administration (DRA)
X	National Consumer Price Index Average
+	Pick-Ups for new construction (as of April 1)
X	Prior Year's Tax Rate approved by DRA
=	Additional Revenues Allowed to be Raised with Property Taxes

The city's tax rate is set by the New Hampshire Department of Revenue Administration. The total tax rate is comprised of a statewide education property tax assessment, Merrimack County tax assessment and the local municipal and school rates. The Franklin City Council has authority over the school and municipal rate, but not the statewide property tax rate or the county tax rate.



City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2016



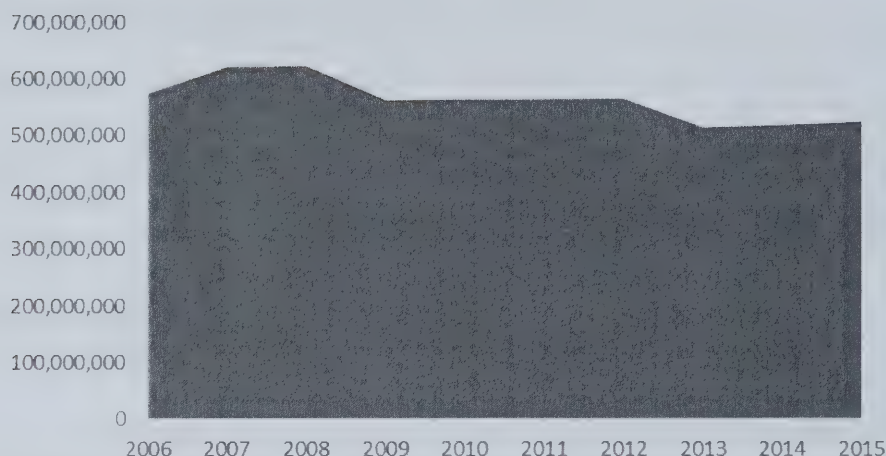
The total city tax commitment as opposed to the city's gross budget reflects how much taxes were raised as a result of changes in the gross budget and property assessment.

Fiscal Year	Total Taxes	Percentage Change
2006	\$10,090,189	6.4%
2007	\$10,724,152	6.3%
2008	\$11,038,643	2.9%
2009	\$11,018,539	0.0%
2010	\$11,391,420	3.4%
2011	\$11,735,093	3.0%
2012	\$11,955,968	1.9%
2013	\$12,356,447	3.3%
2014	\$12,442,736	0.7%
2015	\$12,722,153	2.2%
2016	\$12,914,504	1.5%

The City's net valuation, or the taxable assessment on both land and buildings used to establish the tax rate, was \$524,340,346 in fiscal year 2016. The City has experienced a \$6.09m increase in assessed valuation from the previous year.

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2016

Assessed Valuation



Economics

The City of Franklin is at the confluence of the Pemigewasset and Winnepesaukee Rivers, forming the headwaters for the Merrimack River. In its prime, Franklin was a thriving mill city with numerous factories. After the last of the large mills closed in the 1970's, the community is striving to reinvent itself similar to other New England mill communities.

As New Hampshire growth trends from south to north, Franklin has become more attractive to retirees and commuters seeking affordable homes within convenient driving distances to southern tier employers. Interest in Franklin's historic housing stock, proximity to Interstate 93, and other Lakes Region recreational destinations has renewed interest in the community and drawn attention to revitalizing its main street corridor. The community promotes a stable tax rate, access to various recreational amenities, its historic downtown and a wide variety of City services which similar sized communities don't offer.

The City recognizes the key to growth is economic development and striking that balance between residential and commercial properties. To that end, the City sought & received a grant from the US Department of Agriculture Rural Development Office for economic development. The City initiated contract work with an economic development specialist. A Downtown Business Coordinator was hired with the primary tasks of working with business and property owners to identify key projects that would contribute to the revitalization of the core downtown area, identifying funding opportunities that would move certain projects forward, and researching and applying for the applicable grants, loans, and tax credit programs. By the end of FY16, several programs had been identified and some work had started on conceptual applications.

CATCH housing who purchased an abandoned mill property along the river in FY15 has secured funding and has begun work on a 42 unit middle income housing/community project. This will greatly improve the downtown façade as this old mill building is one of the first things visitors see entering the City from the west.

The non-profit PermaCity Life is continuing their efforts in revitalizing the downtown corridor. The non-profit focuses on bricks and mortar work aimed at bringing in new businesses and getting older buildings ready for repurposing for new ones. As reported in FY15, PermaCity owns 7 buildings in the downtown and has plans in the works for a kayak/outdoor shop, restaurant and microbrewery among other things.

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2016

The City is capitalizing on our natural resources: trails, 3 rivers and a lake while working on its appeal to the younger population. Recently, the City completed clean-up work with the help of the New Hampshire Department of Environmental Services on the Macosko property, a former mechanical garage, and has converted the property into trail parking and access point to the Northern Rail Trail.

The City continues to clean up dilapidated property. In FY16, the City demolished dilapidated buildings on Summit Street and Morrill Court, sold the property placing it back on the tax roll.

In FY16, the City completed the street light replacement project which replaced all of the City's approximately 500 streetlights with LED technology saving 50% on the electrical billings. The utility company, Eversource, provided \$49,000 in rebates to partially fund the project. The remaining piece of the project is funded by the energy savings through CDFA's Clean Energy Fund over a term of 6 years.

The State of New Hampshire Department of Transportation is about 90 % complete with their roadway and traffic improvement project associated with Franklin Industrial Drive and South Main Street. This should assist with traffic pattern and safety issues and concerns with the industrial part of the City.

For the 2nd year, the City is seeing reverse of the recent recession slow growth trends. Slight growth did occur as retirees and commuting professionals seek property tax stability, centralized location in the State of New Hampshire, close proximity to the Lakes Region, affordable housing stock, recreational access, and the amenities generally provided by cities. In addition, the City is starting to see an increase in housing values and sales (verses foreclosures).

The City has been exploring new and innovative ways to address rising costs and more demand on services with police and fire departments as well as the rising costs and declining enrollment of the school system. Management is beginning to think globally as one unit funded by the common taxpayer instead of 2 entities: municipal departments and school district. Working together in FY16, management has continued the discussion of consolidating services between entities to improve efficiencies, eliminate duplication of effort, address areas of concern and realize cost savings. The City plans to focus on financial consolidation then buildings and grounds and possibly information technology. Capitalizing on our strengths and eliminating weaknesses will keep the City moving forward by placing resources where needed the most: public safety and education.

Water and Sewer Rates

The City has continued efforts to improve the quality and delivery of water.

The City secured funding (totaling \$765,000) through the State of New Hampshire Drinking Water State Revolving Fund (DWSRF) with a 35% forgiveness for the rehabilitation of Cross Street Tank and the Route 3 water main relocation and replacement. The project is well underway as of the end of the fiscal year. In addition, several water line were replaced during FY16.

The ongoing Water Meter Replacement Program continues to replace all 2314 outdated water meters. This enables the City to obtain accurate water usage consumption from all customers. The project is about 50% complete at the end of FY16.

The City sanitary sewer collection system is piped to the Winnepesaukee River Basin Program (WRBP) interceptor which then flows to a state owned and operated waste water treatment plant located at the end of River Street in Franklin. WRBP was created by special legislation by the State of New Hampshire and was constructed in the early 1980's. WRBP is a regional wastewater collection system operated by the State serving 10 municipalities each paying a proportional assessment for the operation, maintenance, capital and debt service for the program. The WRBP is approximately 76% of the City's current sewer budget. Although some capital improvement expenditures

City of Franklin, New Hampshire
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2016

have been passed on to the City by the WRBP, several large capital improvements are expected from WRBP in the coming years that will pass to the City and impact the rate payer. As part of the WRBP, each member community has an appointed advisory board member who works with New Hampshire Department of Environmental Services (NHDES). The role of the advisory board has become more involved in the operation of the program, funding and implementation of capital projects as well as other operational issues in the current fiscal period providing better oversight and management of expenses.

All of the above factors were considered in preparing the City of Franklin's water and sewer budgets for the 2016 fiscal year. Water rates increased \$.25 per 100 cubic feet (4.36%) for fiscal 2017 budget year. this increase represents the remaining 25 cents increase that was deferred from FY15. Sewer rates remained constant at \$6.27 per 100 cubic feet in FY17.

Requests for Information

This financial report is designed to provide a general overview of the City of Franklin's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Judie Milner, Finance Director, City of Franklin Finance Office, 316 Central Street Franklin, NH 03235.

BASIC FINANCIAL STATEMENTS

City of Franklin, New Hampshire
Statement of Net Position
June 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Assets			
Cash and equivalents	\$ 7,566,580	\$ -	\$ 7,566,580
Investments	3,362,079	-	3,362,079
Receivables, net of allowances for uncollectables			
Taxes	2,692,394	-	2,692,394
Accounts	646,957	828,393	1,475,350
Intergovernmental receivable, current	1,146,820	1,348,780	2,495,601
Internal Balances	(153,553)	153,553	(0)
Prepaid items	73,711	-	73,711
Inventory	11,063	141,718	152,781
Tax deeded property, subject to resale	539,752	-	539,752
Other Assets			-
Capital assets not being depreciated			
Monuments	61,000	-	61,000
Land	1,228,504	65,148	1,293,652
Construction in progress	127,193	333,970	461,163
Capital assets, net of accumulated depreciation			
Land improvements	153,028	-	153,028
Buildings and improvements	11,772,521	427,746	12,200,267
Machinery, equipment, and vehicles	2,607,800	553,490	3,161,289
Infrastructure	2,118,315	18,268,671	20,386,986
Total assets	33,954,165	22,121,468	56,075,633
DEFERRED OUTFLOW OF RESOURCES			
Pension related outflows	1,684,918	53,014	1,737,932
Total deferred outflow of resources	1,684,918	53,014	1,737,932
LIABILITIES			
Classified Liabilities			
Accounts Payable	1,321,324	148,338	1,469,661
Accrued payroll and benefits	151,032	9,758	160,790
Accrued interest payable	7,890	130,351	138,242
Intergovernmental payable	34,524	-	34,524
Unearned revenues	138,104	-	138,104
Noncurrent liabilities:			
Due within one year:			
Bonds	492,105	130,180	622,285
Notes	102,958	815,311	918,269
Leases	50,136	31,121	81,258
Landfill postclosure care costs	6,377	-	6,377
Compensated absences	254,664	19,130	273,794
Due in more than one year:			
Bonds, long term	2,128,950	2,994,100	5,123,050
Compensated absences	139,275	-	139,275
Notes, long term	665,810	3,305,911	3,971,721
Leases	238,902	133,183	372,085
Landfill postclosure care, long term	167,317	-	167,317
Other post employment benefits	1,855,305	-	1,855,305
Net pension liability	16,034,199	531,520	16,565,719
Total Liabilities	23,788,873	8,248,903	32,037,776
DEFERRED INFLOW OF RESOURCES			
Property taxes levied in current year to finance FY2017 budget	6,527,650	-	6,527,650
Pension related inflows	992,013	29,733	1,021,746
Grant from State of New Hampshire to offset portion over the life of the 2006 State revolving fund loan (sewer) & 2014 State revolving fund loan (water)			
		1,109,056	1,109,056
Total Deferred Inflow of Resources	7,519,663	1,138,789	8,658,452
NET POSITION			
Net investment in capital assets	14,389,499	12,239,218	26,628,717
Restricted	2,023,795	152,179	2,175,975
Unrestricted	(12,082,749)	395,394	(11,687,355)
Total net position	\$ 4,330,546	\$ 12,786,791	\$ 17,117,337

The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Statement of Activities
For the Fiscal Year Ended June 30, 2016

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions		Governmental Activities	Business-Type Activities	Total
			Grants and Contributions	Capital Contributions			
Primary government:							
Primary government							
Governmental activities:							
General Government	\$ 1,728,609	\$ 9,024	\$ 17,750	\$ -	\$ (1,701,835)		\$ (1,701,835)
Public Safety	5,022,685	534,663	77,162	193,519	(4,217,341)		(4,217,341)
Highways and streets	1,481,311	61,222	202,177	-	(1,217,912)		(1,217,912)
Sanitation	812,753	219,961	-	-	(592,792)		(592,792)
Health	187,567	-	196,227	-	8,660		8,660
Welfare	82,045	-	-	-	(82,045)		(82,045)
Culture and recreation	917,865	204,695	2,952	-	(710,218)		(710,218)
Conservation	863	-	-	-	(863)		(863)
Economic Development	45,000	-	-	-	(45,000)		(45,000)
School	14,749,695	499,936	9,388,627	-	(4,861,132)		(4,861,132)
Interest on long term debt	134,613	-	-	-	(134,613)		(134,613)
Capital Outlay	215,651	-	-	13,614	(202,037)		(202,037)
Total governmental activities:	25,378,656	1,529,501	9,884,895	207,132	(13,757,128)		(13,757,128)
Business-type activities:							
Water operations	1,654,576	1,515,887	-	59,427	\$ (79,261)	\$ (79,261)	(79,261)
Sewer operations	1,241,947	1,231,955	7,329	-	(2,663)	(2,663)	(2,663)
Total business-type activities	2,896,522	2,747,842	7,329	59,427	(81,924)	(81,924)	(81,924)
Total primary government	28,275,179	4,277,343	9,892,224	266,560	(13,757,128)	(81,924)	(13,839,052)
General Revenues:							
Property Taxes					11,333,508		11,333,508
Other Taxes					248,463		248,463
Licenses and Permits					1,281,160		1,281,160
Grants Not Restricted to Specific Programs					34,518		34,518
Interest Earnings					75,705		75,705
Change in Fair Market Value					(23,422)		(23,422)
Miscellaneous					1,567,942		1,567,942
Transfers - Internal Activity					-	-	-
Total General Revenues					14,517,874	-	14,517,874
Change in Net Position					760,747	(81,924)	678,822
Net Position - Beginning					3,569,799	12,868,715	16,438,515
Net Position - Ending					\$ 4,330,546	\$ 12,786,791	\$ 17,117,336

The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Balance Sheet
Governmental Funds
June 30, 2016

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and equivalents	\$ 7,094,803	\$ -	\$ 471,778	\$ 7,566,580
Investments	1,156,903	-	2,205,176	3,362,079
Receivables, net of allowances for uncollectables				
Taxes	2,692,394	-	-	2,692,394
Accounts	637,212	-	9,746	646,957
Intergovernmental receivable	617,242	-	427,591	1,044,833
Interfund receivable	702,238	-	100,432	802,669
Prepaid items	72,411	-	1,300	73,711
Inventory	177	-	10,886	11,063
Other Assets	-	-	-	-
Total assets	<u>\$ 12,973,379</u>	<u>\$ -</u>	<u>\$ 3,226,908</u>	<u>\$ 16,200,287</u>
LIABILITIES AND FUND BALANCES				
Classified Liabilities				
Accounts payable	\$ 672,969	\$ -	\$ 646,354	\$ 1,319,324
Accrued payroll and benefits	126,354	-	2,723	129,077
Retainage payable	-	-	-	-
Intergovernmental payable	34,524	-	-	34,524
Interfund payable	432,925	-	525,297	958,222
Unearned revenue	7,165,667	-	5,087	7,170,754
Total liabilities	<u>8,432,440</u>	<u>-</u>	<u>1,179,461</u>	<u>9,611,901</u>
Fund balances:				
Nonspendable	72,588	-	1,095,632	1,168,220
Restricted	-	-	866,462	866,462
Committed	771,421	-	96,239	867,660
Assigned	474,251	-	-	474,251
Unassigned	3,222,680	-	(10,886)	3,211,794
Total fund balances	<u>4,540,940</u>	<u>-</u>	<u>2,047,446</u>	<u>6,588,386</u>
Total liabilities and fund balances	<u>\$ 12,973,379</u>	<u>\$ -</u>	<u>\$ 3,226,908</u>	<u>\$ 16,200,287</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2016

Total Fund Balances - Governmental Funds	\$ 6,588,386
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation.	18,068,361
Certain long term assets are not available to pay for current fund liabilities and, therefore, are deferred in the funds:	
Tax Deeded Property	539,752
Receivables from other governments	101,988
	641,739
Internal service funds are used by management to account for fuel, gasoline and diesel, used by City vehicles. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.	-
Certain long term liabilities are not due and payable from current financial resources and, therefore, are not reported in the funds:	
Accrued interest payable	(29,845)
Due to other governments	-
Capital lease obligations payable	(289,038)
General obligation bonds payable	(2,621,055)
Notes payable	(768,768)
Landfill postclosure costs	(173,694)
Accrued compensated absences	(393,939)
Other post employment benefits	(1,855,305)
Net pension liability	(16,034,199)
Unearned revenue	505,000
	(21,660,844)
Deferred inflows and outflows of resources are not current financial sources and uses and therefore are not reported in the governmental funds:	
Pension related outflows	1,684,918
Pension related inflows	(992,013)
	692,905
Total Net Position - Governmental Activities	\$ 4,330,546

The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 11,497,054	\$ -	\$ -	\$ 11,497,054
Licenses and Permits	1,281,160	-	-	1,281,160
Intergovernmental	10,175,796	-	431,055	10,606,851
Charges for Services	978,902	-	200,371	1,179,273
Miscellaneous	1,094,780	-	20,201	1,114,981
Interest	11,170	-	64,536	75,706
Change in fair market value	-	-	(23,422)	(23,422)
Total Revenues	\$ 25,038,861	-	\$ 692,742	\$ 25,731,603
Expenditures:				
General Government	1,532,762	-	14,025	1,546,788
Public Safety	5,113,038	-	57,310	5,170,348
Highways and Streets	1,383,581	-	-	1,383,581
Sanitation	959,639	-	-	959,639
Health	188,015	-	-	188,015
Welfare	82,313	-	-	82,313
Culture and Recreation	602,463	-	299,682	902,145
Conservation	500	-	363	863
Economic Development	45,000	-	-	45,000
School	13,767,548	-	649,292	14,416,840
Debt Service	629,499	-	-	629,499
Capital Outlay	493,095	-	607	493,702
Total Expenditures	\$ 24,797,454	-	\$ 1,021,278	\$ 25,818,732
Excess of Revenues Over Expenditures	\$ 241,407	-	\$ (328,536)	\$ (87,129)
Other Financing Sources (Uses):				
Transfers In	18,357	-	384,215	402,571
Transfers Out	(344,847)	-	(56,967)	(401,815)
Proceeds from notes payable	165,200	-	-	165,200
Proceeds from capital leases	58,428	-	-	58,428
Total Other Financing Sources(Uses)	\$ (102,863)	-	\$ 327,247	\$ 224,385
Net Change in Fund Balances	138,545	-	(1,289)	137,256
Fund Balances, Beginning	4,402,395	-	2,048,735	6,451,130
Fund Balances, Ending	\$ 4,540,940	\$ -	\$ 2,047,446	\$ 6,588,386

The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2016

Total Net Change in Fund Balances - Governmental Funds	\$	137,256
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while government-wide activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized		1,306,903
Loss on disposal of capital assets		-
Depreciation expense		(1,252,937)
		53,967

Revenues and deferred outflows in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Tax Deeded Properties		86,086
Expended capital lease proceeds from prior year		(22,411)
Deferred pension contributions		116,214
Accounts receivable		(50,984)
		128,904

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long term liabilities in the Statement of Net Position. Repayment of debt principle is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the Statement of Net Position:

Notes payable proceeds received		(165,200)
Capital lease proceeds received		(58,428)
Capital lease obligation principle payments		203,625
Notes payable obligation payments		32,858
General obligation bond principle payments		492,105
		504,960

Some expenses and deferred inflows reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Transfer to enterprise funds		
Accrued interest payable		2,781
Landfill postclosure		5,943
Accrued compensated absences		(5,261)
Severance bonus provision		(4,234)
Other post employment benefits		(358,410)
Net difference between projected and actual investment earnings on pension plan investments		1,259,310

Changes in proportion and differences between employer contributions and proportionate share of contributions		6,059
Changes in net pension liability		(938,387)
		(32,200)

Internal Services Funds are used by management to account for the cost of fuel charged to individual departments. The net revenue (expense) of the internal service funds is reported with governmental activities.

		(32,139)
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Change in Net Position of Governmental Activities	\$	760,747
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The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Statement of Net Position
Proprietary Funds
June 30, 2016

	Enterprise Funds		Total Enterprise Funds	Governmental Activity - Fuel Depot Internal Service Fund
	Water	Sewer		
ASSETS				
Current Assets:				
Accounts Receivable, Net of Allowance for Uncollectible	\$ 403,948	\$ 424,444	\$ 828,393	\$ -
Intergovernmental Receivable	1,249,989	98,791	1,348,780	-
Interfund Receivable	-	329,493	329,493	-
Inventory	139,256	2,462	141,718	-
Total Current Assets	1,793,194	855,191	2,648,385	-
Noncurrent Assets:				
Capital Assets:				
Land	65,148	-	65,148	-
Construction in Progress	329,428	4,542	333,970	-
Buildings	456,505	100,846	557,350	-
Accumulated Depreciation, Buildings	(120,585)	(9,020)	(129,605)	-
Machinery and Equipment	413,639	573,629	987,269	-
Accumulated Depreciation, M&E	(332,549)	(101,230)	(433,779)	-
Infrastructure	20,805,522	2,953,760	23,759,282	-
Accumulated Depreciation, Infra	(4,904,533)	(586,078)	(5,490,611)	-
Total Capital Assets, Net	16,712,575	2,936,449	19,649,024	-
Total Assets	18,505,768	3,791,640	22,297,409	-
DEFERRED OUTFLOW OF RESOURCES				
Pension related outflows	34,814	18,200	53,014	-
Total Deferred Outflow of Resources	34,814	18,200	53,014	-
LIABILITIES				
Current liabilities:				
Accounts Payable	141,558	6,780	148,338	-
Accrued Payroll and Benefits	6,373	3,385	9,758	-
Accrued Interest Payable	119,141	11,210	130,351	-
Interfund Payable	175,940	-	175,940	-
Unearned Revenue	-	-	-	-
General Obligation Debt Payable, Current:				
Notes and Bonds	907,603	37,888	945,491	-
Capital Lease	-	31,121	31,121	-
Compensated Absences	12,742	6,388	19,130	-
Total Current Liabilities	1,363,356	96,773	1,460,129	-
Noncurrent Liabilities:				
General Obligation Bonds Payable	2,994,100	-	2,994,100	-
General Obligation Notes Payable	2,849,663	456,247	3,305,911	-
Capital Lease Payable	-	133,183	133,183	-
Net Pension Liability	351,467	180,053	531,520	-
Total Noncurrent Liabilities	6,195,230	769,484	6,964,714	-
Total Liabilities	7,558,587	866,256	8,424,843	-
DEFERRED INFLOW OF RESOURCES				
Pension related inflows	19,851	9,882	29,733	-
Grant from State of New Hampshire to offset portion over the life of the 2006 State revolving fund loan (sewer) & 2014 State revolving fund loan (water)	1,010,265	98,791	1,109,056	-
Total Deferred Inflow of Resources	1,030,116	108,673	1,138,789	-
NET POSITION:				
Net investment in capital assets	9,961,209	2,278,009	12,239,218	-
Restricted	112,542	39,637	152,179	-
Unrestricted	(121,871)	517,264	395,394	-
Total Net Position	\$ 9,951,880	\$ 2,834,911	\$ 12,786,791	\$ -

The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Statement of Revenues, Expenditures, and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2016

	Enterprise Funds		Total	Governmental
	Water	Sewer	Enterprise	Activity - Fuel
	Fund	Fund	Funds	Depot Internal
				Service Fund
Operating revenues:				
User Charges	\$ 1,502,625	\$ 1,231,955	\$ 2,734,580	\$ -
Miscellaneous	13,262	-	13,262	\$ -
Grants	-	7,329	7,329	\$ -
Sale of Municipal Property	-	-	-	\$ -
Total operating revenues	1,515,887	1,239,284	2,755,171	\$ -
Operating expenses:				
Salaries, wages and benefits	481,603	222,340	703,943	\$ -
Purchased services, professional and technical	9,993	11,709	21,702	\$ 31,382
Purchased services, property and miscellaneous	611,720	930,497	1,542,216	\$ -
Depreciation	387,609	64,057	451,666	\$ -
Total operating expenses	1,490,924	1,228,604	2,719,528	\$ 31,382
Operating income (loss)	24,963	10,680	35,643	\$ (31,382)
Capital Grants and Contributions:				
Capital Grants	59,427	-	59,427	\$ -
Total capital grants and contributions	59,427	-	59,427	\$ -
Nonoperating revenues (expenses):				
Interest	(163,651)	(13,343)	(176,995)	\$ -
Total nonoperating revenues (expenses)	(163,651)	(13,343)	(176,995)	\$ -
Income (loss) before transfers	(79,261)	(2,663)	(81,924)	\$ (31,382)
Transfers:				
In	-	-	-	\$ -
Out	-	-	-	\$ (757)
Total transfers	-	-	-	\$ (757)
Net change in position	(79,261)	(2,663)	(81,924)	\$ (32,139)
Net position, beginning	10,031,141	2,837,574	12,868,715	\$ 32,139
Net position, ending	\$ 9,951,880	\$ 2,834,911	\$ 12,786,791	\$ -

The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2016

	Enterprise Funds			Governmental Activity - Fuel Depot Internal Service Fund
	Water Fund	Sewer Fund	Total Enterprise Funds	
Cash Flows from Operating Activities				
Receipts from Users	\$ 1,502,625	\$ 1,231,955	\$ 2,734,580	\$ -
Payments to Providers	(1,490,924)	(1,228,604)	(2,719,528)	(31,382)
Other Receipts (Payments)	102,420	49,861	152,281	32,139
Net Cash Provided by (Used in) Operating Activities	114,121	53,212	167,333	757
Cash Flows from Noncapital Financing Activities				
Transfers from Other Funds	-	-	-	-
Transfers to Other Funds	-	-	-	(757)
Net Cash Provided by (Used in) Noncapital Financing Activities	-	-	-	(757)
Cash Flows from Capital and Related Financing Activities				
Capital Assets	(393,328)	(174,679)	(568,007)	-
Long Term Debt	383,431	134,809	518,241	-
Interest	(163,651)	(13,343)	(176,995)	-
Capital Grants	59,427	-	59,427	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	(114,121)	(53,212)	(167,333)	-
Net Increase (Decrease) in Cash and Cash Equivalents	(0)	-	(0)	-
Balances - Beginning of Year	-	-	-	-
Balances - End of Year	\$ (0)	\$ -	\$ (0)	\$ -
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating Income (Loss)	\$ 24,963	\$ 10,680	\$ 35,643	\$ (31,382)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Change in Assets and Liabilities:				
Inventory	62,252	(880)	61,373	-
Receivables, net	(56,174)	(80,096)	(136,270)	-
Unearned Revenue	-	-	-	-
Deferred Inflows	(82,594)	(19,462)	(102,056)	-
Deferred Outflows	(2,207)	(1,513)	(3,720)	-
Due from Other Funds	50,154	150,160	200,314	32,139
Accounts Payable	102,714	(13,062)	89,653	-
Accrued Payroll	(2,773)	(206)	(2,979)	-
Due to Other Funds	175,940	-	175,940	-
Due from Other Governments	(159,372)	7,329	(152,043)	-
Accrued Compensated Absences	1,217	261	1,478	-
Net Cash Provided By (Used in) Operating Activities	\$ 114,121	\$ 53,212	\$ 167,333	\$ 757

The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Statement of Net Position
Fiduciary Funds
June 30, 2016

	Agency Funds			Private Purpose Trust Funds		
	Engineering Escrow	Student Activities	Total	Charity	School Scholarship	Total
ASSETS						
Cash and Cash Equivalents	\$ 86	\$ 152,098	\$ 152,184	\$ -	\$ -	\$ -
Investments	-		-	250,859	1,064,139	1,314,998
Due from General Fund	2,000		2,000	1,000		1,000
Total Assets	2,086	152,098	154,184	251,859	1,064,139	1,315,998
LIABILITIES						
Accounts Payable	2,000	-	2,000	-	-	-
Due to Developers	86	-	86	-	-	-
Due to General Fund	-	-	-	-	1,000	1,000
Due to Student Groups	-	152,098	152,098	-	-	-
Total Liabilities	2,086	152,098	154,184	-	1,000	1,000
NET POSITION						
Held in Trust for Special Purposes	\$ -	\$ -	\$ -	\$ 251,859	\$ 1,063,139	\$ 1,314,998

The accompanying notes to the basic financial statements are an integral part of this statement.

City of Franklin, New Hampshire
Statement of Changes in Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2016

	Private Purpose Trust Funds		
	Charity	School Scholarship	Total
ADDITIONS			
Investment earnings:			
Interest and dividends	\$ 13,544	\$ 45,494	\$ 59,038
Net increase in fair market value of investments	(9,794)	(41,544)	(51,338)
New Funds	-	255,694	255,694
DEDUCTIONS			
Scholarship and charity distributions	938	22,685	23,623
Change in net position	2,813	236,958	239,771
Net position, beginning	249,046	826,180	1,075,226
Net position, ending	<u>\$ 251,859</u>	<u>\$ 1,063,139</u>	<u>\$ 1,314,998</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

NOTES TO BASIC FINANCIAL STATEMENTS

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Franklin, New Hampshire (the City) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

1-A Reporting Entity

The City of Franklin is a municipal corporation governed by an elected City Council, comprised of a Mayor and (9) Councilors, and City Manager. The reporting entity is comprised of the primary government and any other organizations that are included to ensure that the financial statements are not misleading.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board, and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. A primary government may also be financially accountable if an organization is fiscally dependent on the primary government. Fiscal independency is defined by GASB as the ability to complete certain essential fiscal events without substantive approval by a primary government: (a) determine its budget without another government's having the authority to approve and modify that budget, (b) levy taxes or set rates or charges without approval by another government, and (c) issue bonded debt without approval by another government. Based on the foregoing criteria, the City of Franklin's dependent school district is included in the City's financial reporting entity as a blended component unit.

1-B Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities; and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements - The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole. Individual funds are not displayed at this reporting level as all individual funds are consolidated as governmental or business-type activities. Fiduciary activities are not included at the government-wide reporting level.

The statement of net position presents the financial position of the governmental and business-type activities of the City at year-end. This statement includes all of the City's assets, liabilities and net position.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental and business-type activities. Direct expenses are those that are specifically associated with the function, and therefore, clearly identifiable to that particular function.

The statement of activities reports the expenses of a given function offset by program revenues directly related to the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with the functional activity. Program revenues include: (1) charges for services, which include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions, which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to the program uses.

For identifying to which function program revenue pertains, the determining factor for *charges for services* is which functions generate the revenue. For *grants and contributions*, the determining factor is to which functions the revenues are *restricted*.

Fund Financial Statements - During the year, the City segregates transactions related to certain functions or activities in

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2016

1-B Basis of Presentation, continued

separate funds in order to aid financial management and to demonstrate legal compliance. A fund is a fiscal and accounting entity with a self-balancing set of accounts. Fund financial statements are designed to present financial information of the City at this more detailed level. Fund financial statements are provided for governmental, proprietary and fiduciary funds.

Fund Accounting - The City uses funds to maintain its financial records during the year. The City uses three categories of funds: governmental, proprietary, and fiduciary.

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Fund liabilities are assigned to the fund from which they will be liquidated. The City reports the difference between governmental fund assets and liabilities as fund balance. The following are the City's major governmental funds:

General Fund - The general fund is the primary operating fund of the City. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. This fund accounts for general operating expenditures, fixed charges, and the capital improvement costs that are not reported in other funds.

Capital Fund - The capital fund is used to account for bond monies received for renovation or construction of a new asset. Currently, the downtown transportation project is reflected in the capital fund.

The City also reports 14 non-major special revenue and permanent funds as other governmental funds.

Proprietary Funds - Proprietary funds are those which account for activities of the government that are similar to activities that may be performed by a commercial enterprise. These funds cover those activities that generally charge a fee in order to recover operational costs. The City reports the difference between proprietary fund assets and liabilities as net position. The following are the City's two major proprietary funds:

Enterprise Funds - Enterprise funds are used to report activities for which a fee is charged to external users for goods or services. The City reports water and sewer funds, which account for all the activity related to the provision of water and sewage disposal services, as major funds.

Internal Services Fund - Internal Services funds are used to account for any activity that provides goods and services to other funds, departments or agencies of the primary government and its component units, or to other governments, on a cost reimbursement basis. The City also reports one internal service fund, which predominantly accounts for fuel used by City departments or agencies, as a governmental activity. The City's fuel island was decommissioned in FY2016 and internal service fund closed. The City purchases fuel from the State of New Hampshire fuel island program.

Fiduciary Funds - Fiduciary fund reporting focuses on net position. The City's fiduciary funds consist of two types of funds, agency and private purpose trust funds. The engineering escrow and student activities agency funds are custodial in nature (assets equal liabilities), and do not involve the measurement of results of operations. The charity and scholarship private purpose trust funds account for assets held by the trustees of trust funds for the benefit of other governments, organizations or individuals.

1-C Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net position. The statement of activities reports revenues, expenses and changes in net position.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports the sources (i.e., revenues and other financing

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2016

1-C Measurement Focus, continued

sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the governmental fund statements.

All proprietary funds are accounted for using the accrual basis of accounting. Using this basis of accounting, revenues are recognized when they are earned, and expenses are recognized when they are increased (flow of economic resources measurement focus).

Fiduciary funds use an economic resources measurement focus. These funds report all assets and liabilities on the statement of fiduciary net position. The statement of changes in fiduciary net position reports additions and deductions to net position of the private purpose trust funds.

1-D Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. At the fund reporting level, governmental funds use the modified accrual basis of accounting, and proprietary and fiduciary funds use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of some unearned revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year, generally within sixty days of year-end.

Revenues - Nonexchange Transactions - Nonexchange transactions, in which the City receives value without directly giving equal value in return, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all grantor imposed eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions also must be available (i.e., collected within 60 days) before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be susceptible to accrual: taxes, charges for services, interest, and federal and state grants.

Unearned Revenue - Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. On governmental fund financial statements (i.e., on the modified accrual basis), receivables that will not be collected within the available period have been reported as unearned revenue (i.e., they are measurable, but not available) rather than as revenue. Grants and entitlements received before the eligibility requirements are met (e.g., cash advances) also are recorded as Unearned revenue in the governmental funds and on the government-wide financial statements.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis, expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's primary ongoing operations. The principal operating revenue of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2016

1-E Assets, Liabilities and Net Position or Fund Equity

1-E-1 Cash, Cash Equivalents and Investments

Cash and Cash Equivalents - Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

New Hampshire statutes require that the City treasurer have custody of all moneys belonging to the City and pay out the same only upon orders of the City Manager. The treasurer shall deposit all such moneys in participation units in the public deposit investment pool established pursuant to N.H. RSA 383:22 or in solvent banks in the state. Funds may be deposited in banks outside the state if such banks pledge and deliver to a third party custodial bank or the Federal Reserve Bank, collateral security for such deposits, United States government or government agency obligations or obligations of the State of New Hampshire in value at least equal to the amount of the deposit in each case.

Investments - Whenever the treasurer has in custody an excess of funds, which is not immediately needed for the purpose of expenditure, the treasurer shall, with the approval of the City Manager, invest the excess funds.

New Hampshire law authorizes the City to invest in the following type of obligations:

- Obligations of the United States government,
- The public deposit investment pool established pursuant to RSA 383:22,
- Savings bank deposits,
- Certificates of deposit and repurchase agreements of banks incorporated under the laws of the State of New Hampshire or in banks recognized by the state treasurer.

Any person who directly or indirectly receives any such funds or moneys for deposit or for investment in securities of any kind shall, prior to acceptance of such funds, make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the City. Only securities defined by the bank commissioner as provided by rules adopted pursuant to RSA 386:57 shall be eligible to be pledged as collateral.

Investments are stated at fair value based on quoted market prices, in accordance with GASB Statement #31.

1-E-2 Receivables

Tax revenue is recorded when a warrant for collection is committed to the tax collector. Taxes receivable are reported net of an allowance established for tax amounts considered uncollectible by City management.

As prescribed by law, the tax collector executes a lien on properties for all uncollected property taxes in the following year after taxes are due. The lien on these properties has priority over other liens and accrues interest at 18% per annum. If property is not redeemed within the 2-year redemption period, the property is tax deeded to the City, and may be subsequently sold at public sale. Accounts receivable include various service charges which are recorded as revenue for the period when service was provided. These receivables are reported net of any allowances for uncollectible amounts.

1-E-3 Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as interfund receivables/payables. These amounts are eliminated on the statement of net position. Balances between governmental and proprietary funds are eliminated on the line called internal balances.

1-E-4 Inventory and Prepaid Items

Inventory is valued at cost using the first-in, first-out method. The consumption method is used to account for inventory. Under the consumption method, inventory is recorded when expenditures are consumed rather than when purchased. Reported inventory in the governmental funds is equally offset by nonspendable fund balance reserve which indicates that the

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
As Of And For The Fiscal Year Ended
June 30, 2016

1-E-4 Inventory and Prepaid Items, continued

assets are not available for appropriation even though they are a component of reported assets.

Payments made to vendors for services that will benefit periods beyond year-end are recorded as prepaid items using the consumption method, by recording an asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

1-E-5 Capital Assets

Capital assets include property and equipment which the City owns. These assets are reported in the applicable columns of the government-wide financial statements. The proprietary funds' capital assets are reported in both the government-wide and fund statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000 and three or more years of estimated life. Improvements to capital assets are capitalized; the costs of normal maintenance and repairs that do not add to the value of an asset or materially extend the asset's life are expensed.

All reported capital assets are depreciated over their estimated useful lives. Depreciation is computed using the straight-line method over the following useful lives:

	<u>Years</u>
Land improvements	50-75 years
Building and building improvements	20-120 years
Machinery, Equipment and Vehicles	3-50 years
Infrastructure	20-100 years

1-E-6 Compensated Absences

Vacation benefits are accrued as a liability, as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are not payable upon termination and therefore not accrued as a liability.

All compensated absence liabilities include salary-related payments, where applicable.

The total compensated absence liability is reported on the government-wide and proprietary fund financial statements. Governmental funds report the compensated absence liability at the fund reporting level only when due.

1-E-7 Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of these funds. However, claims and judgments, and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

In the government-wide financial statements and in proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position.

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
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1-E-8 Pensions

The City adopted Governmental Accounting Standards Board Statement No. 68 – *Accounting and Financial Reporting for Pensions*. As a result the City is required to report its proportionate share of the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, pension expense, and information about the fiduciary net position of the New Hampshire Retirement System, (NHRS) a Cost-Sharing Multiple Employer Defined Benefit Pension Plan.

1-E-9 Deferred Outflow/Inflow of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until the applicable future period.

A deferred inflow of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until the applicable future period.

1-E-10 Equity

Fund equity at the governmental fund financial reporting level is classified as fund balance. Equity for all other reporting is classified as net position. The City implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement established new fund balance classifications and reporting requirements outlined below.

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The City reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources, and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The City's fund balance classification policies and procedures are as follows:

- 1) Non Spendable funds are funds not available for expenditure due to restrictions placed on the funds from external sources. The City does not expend these funds.
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by City resolution adopted by the City Council and their use is specifically identified. Any change in the use of these funds would require revision of the initial development of the fund through further resolutions.
- 3) Committed funds are reported and expended as a result of resolutions adopted by the appropriate majority of the City Council.
- 4) Assigned funds are used for specific purposes as established by management and approved by the City Manager. These funds which include encumbrances have been assigned for specific goods and services ordered by the City prior to year end but not received or fulfilled by year end.
- 5) Unassigned funds are available to be spent in future periods within the restrictions as defined by the City's fund balance policy. The City's policy requires that it achieve and maintain a minimum unrestricted (which includes committed, assigned and unassigned fund balances) general fund balance of at least 15% of total general fund appropriations approved for that fiscal year, excluding any appropriation for capital projects or improvements funded by bond process, transfer or other financing sources.

The City does not have any stabilization arrangements at this time.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the City uses the following order to liquidate liabilities: restricted, committed, assigned, unassigned.

Net Position - Net position represent the difference between assets and liabilities. Net investment in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net position is reported as unrestricted.

City of Franklin, New Hampshire
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1-E-10 Equity, continued

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

1-E-11 Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement of repayment are reported as interfund transfers. At the fund reporting level, interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

At the government-wide financial reporting level, transfers between funds that would be reported in the individual funds are eliminated.

1-E-12 Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2-A Budget

Governmental revenues and expenditures are balanced and controlled by a formal integrated budgetary system which is substantively consistent with Generally Accepted Accounting Principles (GAAP); applicable State finance related laws and regulations which govern the City's operations as well as the City's adopted charter. The City's budget is approved by the City Council. During the budget year, appropriations may be transferred between lines but total expenditures may not exceed the total approved budget. Emergency items may be excepted under the City Charter and Municipal Budget Law under State RSA 32. At year end, all unencumbered annual appropriations lapse. Other appropriations, which have a longer than annual authority may carry over at year end if the governing body intends to continue or complete the special purpose for which the funds were established. State statutes require balanced budgets, but provide for the use of beginning unassigned fund balance to achieve that end. In the fiscal year 2016, \$276,981 of beginning general fund unassigned fund balance was appropriated to reduce taxes.

2-B Encumbrances

Encumbrance accounting is utilized in the governmental funds to account for commitments relating to unperformed contracts for goods and services. Encumbrances outstanding at year-end are reported as assigned fund balance and do not constitute expenditures or liabilities of the governmental fund but are carried forward to supplement appropriations of the succeeding year. Encumbrances outstanding at year-end in the general fund are detailed by function as follows:

Function	Amount
Buildings	49,379
City Clerk	3,600
City Manager	39,356
Fire	13,253
Information Technology	11,977
Municipal Services	245,967
Parks & Recreation	8,370
Police	96,519
School District	5,830
Total Encumbrances	474,251

**City of Franklin, New Hampshire
Notes To The Basic Financial Statements
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2-C Budgetary Basis

The general fund appropriations appearing on Schedule A of the fund financial statements represents the adopted budget plus adopted supplemental budget resolutions as of June 30, 2016 and includes encumbrances and reserves at June 30, 2015 as follows:

FY2016 Original Adopted Budget Appropriations	\$24,785,940
June 2015 Encumbrances	640,471
FY2016 Adopted Supplemental Appropriations	470,184
Prior Year Non Lapsing Appropriations	598,375
Final Budgeted Amounts	\$26,494,970

The actual amounts appearing on Schedule A of the fund financial statements are shown on a budgetary basis which differs from generally accepted accounting principles (GAAP) as follows:

	<u>Revenues</u>	<u>Expenditures</u>
Revenues/Expenditures GAAP Basis	\$25,038,861	\$24,797,454
Transfers From/To Other Funds	18,357	344,847
Budgetary Beginning Fund Balance	3,734,955	
Non Budgeted Activity – Capital Reserve	121,521	102,977
Non Budgeted Activity – Capital Lease		(58,428)
Non Budgeted Activity – Debt Proceeds	165,200	
Revenues/Expenditures Budgetary Basis	\$29,078,894	\$25,186,850

2-D Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters. During fiscal year 2016, the City, with the exception of the school district, was a member of Traveler's Inc for property liability coverage and Primex for workers' compensation coverage. The school district was a member of Primex for property liability and worker's compensation coverage. Primex is considered public entity risk pools, currently operating as common risk management and insurance programs for member towns and cities while Traveler's is on the open commercial market.

Primex is a trust organized to provide certain property and liability insurance coverages to member towns, cities and other qualified political subdivisions of New Hampshire. As a member of Primex, the City shares in contributing to the cost of, and receiving benefits from, a self-insured pooled risk management program. The membership and coverage run from July 1 to June 30. The program maintains a self-insured retention above which it purchases reinsurance and excess insurance. Traveler's and Primex policies cover property, auto physical damage, crime, general liability and public officials' liability subject to not more than a \$2,500 deductible.

Property/Liability contributions paid in 2016 recorded as an insurance expenditure totaled \$206,232. There were no unpaid contributions for the year ending June 30, 2016 and due in 2017. The City also paid \$179,340 for workers' compensation for the year ended June 30, 2016. The trust agreements permit the trusts to make additional assessments to members should there be a deficiency in Trust assets to meet its liabilities. At this time, the Trust foresees no likelihood of any additional assessments for past years.

Settled claims, if any, have not exceeded the City's coverage in any of the past five years.

City of Franklin, New Hampshire
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2-E Contingent Liabilities

Grants – Amounts received are subject to later year’s review and adjustment by grantor agencies, principally federal and state governments. At such time, any disallowed claims, including amounts already collected, may constitute a liability of the City and applicable funds. At June 30, 2016, the City believes that disallowed expenditures, if any, based on subsequent review will not have a material effect on any individual funds or the overall financial position of the City. Therefore, no provision for such contingencies has been recorded.

Litigation – The City is subject to various claims, and sometime lawsuits, which arise in the normal course of operations. Management of the City believes that the outcome of these contingencies will not have a materially adverse effect on the financial statements and accordingly, no provision for loss has been recorded.

2-F Legal Debt Limit

Per state statute, the City may not incur debt at any one time in excess of 9.75% of its locally assessed valuation as last equalized by the Commissioner of the New Hampshire Department of Revenue Administration. For the year ended June 30, 2016, the City’s debt totaled .6% of locally assessed equalized valuation; therefore, the City had not exceeded its legal debt limit.

NOTE 3 - DETAILED NOTES ON ALL FUNDS AND GOVERNMENT-WIDE STATEMENTS

3-A Cash and Investments

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure of the counterparty, the deposits may not be returned. The custodial credit risk for investments is the risk that, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in possession of another part.

Pursuant to New Hampshire State Statute, “the treasurer shall insure that prior to the acceptance of any moneys for deposit or investment, including repurchase agreements, the federally insured bank shall make available at the time of such deposit or investment an option to have such funds secured by collateral having a value at least equal to the amount of such funds. Such collateral shall be segregated for the exclusive benefit of the City.” The City does not have a deposit policy for custodial credit risk.

As of June 30, 2016, \$36,344 of the City’s bank balance of \$6,787,808 was exposed to custodial credit risk as uninsured or uncollateralized. \$31,867 of the uncollateralized amount represents cash in the trustees of trust funds checking account and the remaining \$4,477 is cash in the library trustees savings account.

As of June 30, 2016, the City had the following investments:

Cash held by Trustees/Investment Firm	\$ 514,799
Mutual/Bond Funds	324,542
Common stocks	2,613,870
REIT	49,339
Citizen’s Escrow Account	200,335
TD Bank Escrow Account	<u>974,192</u>
Total	<u>\$4,677,077</u>

Of the City’s \$4,677,077 in investments, \$3,502,550 is subject to custodial credit risk because the securities are held by the counter party’s trust department or agent, not in the City’s name.

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
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3-A Cash and Investments, continued

Included in the City's cash equivalents at June 30, 2016, is a short-term investment in an insured cash sweep agreement issued by a local banking institution. Under this agreement, the bank will deposit excess funds over \$130,000 into a demand deposit account with destination institutions at which deposit accounts are insured by the Federal Deposit Insurance Corporation up to maximum deposit insurance amounts (currently \$250,000). The deposit accounts are held by BNY Mellon, not in the name of the City.

At June 30, 2016 the deposit balances under the insured cash sweep agreement totaled \$6,344,467.73 as follows:

Summary of Balances as of June 30, 2016

FDIC-Insured Institution	City/State	FDIC Cert No.	Balance
Alerus Financial, N.A.	Grand Forks, ND	3931	\$245,030.20
BOKF, National Association	Tulsa, OK	4214	245,001.11
Bank 7	Oklahoma City, OK	4147	245,002.01
Bank Midwest	Spirit Lake, IA	5170	245,030.20
Bank of Central Florida	Lakeland, FL	58479	245,016.11
Bank of the Ozarks	Little Rock, AR	110	245,001.76
Berkshire Bank	Pittsfield, MA	23621	1.02
Bremer Bank, National Association	South St. Paul, MN	12923	245,028.74
CenterState Bank of Florida, N. A.	Winter Haven, FL	33555	13,035.98
ConnectOne Bank	Englewood Cliffs, NJ	57919	245,030.20
Dacotah Bank	Aberdeen, SD	17437	245,001.00
Dubuque Bank and Trust Company	Dubuque, IA	15219	245,002.01
Farmers Exchange Bank	Cherokee, OK	15118	245,030.20
First Bank of Highland Park	Highland Park, IL	17470	245,012.53
First Florida Integrity Bank	Naples, FL	58532	245,027.06
First International Bank & Trust	Watford City, ND	10248	245,003.02
First National Bank of Omaha	Omaha, NE	5452	245,030.20
First Tennessee Bank, NA	Memphis, TN	4977	245,030.20
First United Bank & Trust	Oakland, MD	4857	180,378.77
LegacyTexas Bank	Plano, TX	58006	245,001.00
Metropolitan Bank	Crystal Springs, MS	22346	245,028.58
Oritani Bank	Township of Washington, NJ	28866	245,030.20
Pathfinder Bank	Oswego, NY	15977	7.04
Patriot Bank	Tulsa, OK	34098	245,001.00
Quad City Bank and Trust Company	Bettendorf, IA	33867	245,030.20
St. Louis Bank	Town and Country, MO	58018	2.01
The Park National Bank	Newark, OH	6653	245,030.20
Traditional Bank, Inc.	Mount Sterling, KY	2711	245,030.20
Unico Bank	Mineral Point, MO	10608	245,030.20
United Bank	Parkersburg, WV	6784	245,030.20
Xenith Bank	Richmond, VA	57487	25,554.58

Concentration of Credit Risk

The trustees of the trust fund policy on the concentration of credit risk is to limit the amount that may be invested in any one issue to \$10,000 or 10% of the value of the account whichever is greater. The City's investment policy limits the amount that may be invested in one issuer to \$1m.

The City had the following investments in a single issuer which are greater than 5% of total investments:

American Balanced Fund A	\$261,438
American Mutual Fund Class A	269,263
The income Fund of America – Class A	246,175
The Investment Co of America – Class A	262,752
Washington Mutual Investors Fund- Class A	265,928
TDBank Escrow Account	974,192
SPDR S&P500 ETF TR Unit SER 1	271,270

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
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3-A Cash and Investments, continued

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Foreign Credit Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City's policy limits investment to domestic securities.

Fair Value

The City categorizes its fair value measurements within the fair value hierarchy established by Governmental Standards accounting Board Statement No. 72 Fair Value Measurement and Application (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following fair value measurements as of June 30, 2016:

Description	Fair Market Value Using:			
	Quoted prices in active markets for identical assets		Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Mutual/Bond Funds	\$ 324,542	\$ -	\$ 324,542	\$ -
Common Stocks	2,613,870	2,613,870	-	-
REIT	49,339	-	49,339	-
Total	\$ 2,987,751	\$ 2,613,870	\$ 373,881	\$ -

3-B-1 Taxes Receivable

The property tax year is from April 1 to March 31 and all property taxes are assessed on the inventory taken in April of that year. The net assessed valuation as of April 1, 2015, upon which the 2015 (City FY2016) property tax levy was based is:

For the New Hampshire education tax	\$495,734,546
For all other taxes	\$524,340,346

The City subscribes to the semi-annual method of tax collection as provided for by RSA 76:15-a. Under this method, tax bills are due on or around July 1 and December 1 of each year, with interest accruing at a rate of 12% on bills outstanding after the due date. The first billing is considered an estimate only and is one half of the previous year's tax billing. The remaining balance of taxes due is billed in the fall after the New Hampshire Department of Revenue Administration has calculated and approved the City's tax rate for the fiscal year. Unpaid property taxes may be subject to lien following statutory notification and procedural guidelines as soon as 30-days after the final bill or installment is due. Interest accrues at a rate of 18% on properties that have been through the tax lien process. Two years from the execution of the real estate tax lien the Tax Collector (with approval of City Council) may execute to the lienholder a "deed" of the property subject to the real estate tax lien and not redeemed/paid.

In connection with the setting of the tax rate, City officials with the approval of the Department of Revenue Administration, establish and raise through taxation an amount for abatements and refunds of property taxes, known as overlay. This amount

City of Franklin, New Hampshire
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3-B-1 Taxes Receivable, continued

is reported as a reduction in tax revenue and is adjusted by management for any tax allowances at year-end. The property taxes collected by the City include taxes levied for the State of New Hampshire and Merrimack County, which are remitted as required by law. The ultimate responsibility for the collection of taxes rests with the City.

The tax rates and amounts assessed for the year ended June 30, 2016, were as follows:

Entity	Per \$1000 of Assessed Valuation	Property Taxes Assessed
Municipal portion	12.97	6,797,543
School portion:		
State of New Hampshire	2.45	1,216,829
Local	6.63	3,478,307
County portion	2.98	1,562,503
Total	25.03	13,055,182

During the current fiscal year, the tax collector executed a lien on April 6, 2016 for all uncollected 2014/2015 property taxes, \$393,466.83.

Taxes receivable at June 30, 2016, are as follows:

Property:	
Levy of 2016	\$ 2,249,187
Unredeemed (under tax lien)	495,100
Land Use Change Tax	3,600
Less: allowance for estimated uncollectible taxes	<u>(55,493)</u>
Net taxes receivable	<u>\$2,692,394</u>

The City recognizes property tax revenues when they are levied. This is a GAAP departure from *GASB Statement #1* generally, and specifically *NCGA Interpretation -3 "Revenue Recognition – Property Taxes"*. Under GAAP, certain disclosures are required of property tax revenues that are not received during the period, or within 60 days thereafter, that are recognized as receivables without a corresponding reserve. The City believes that this application of GAAP to its property tax revenues would result in misleading financial statements since such GAAP application would reduce fund balance by the amount of uncollected property taxes; concurrent with a GAAP requirement to record an expenditure and payable for the amount due to the local education authority (such amount based solely on a share of the uncollected property taxes) and County. This GAAP departure as applied to New Hampshire municipalities was addressed by the GASB in 1984. The GASB, in responding to an inquiry on this matter, provided justification for the departure from the 60 day rule due to the unique legislation in the State of New Hampshire regarding the City's responsibility for (and expenditure recognition of) intergovernmental payments to the local education authority (school district) and County. This justification has been reviewed and accepted by the New Hampshire Department of Revenue Administration (which requires GAAP based regulatory reporting) and has been established as a widely prevalent practice followed by most New Hampshire municipalities.

3-B-2 Tax Abatements

The City enters into property tax abatement agreements with local businesses in the downtown area under state statute 79-E. Under the state statute, the City Council may grant tax relief for approved improvements to qualifying structures in the core downtown area. The tax relief is granted for the added value to a property once improvements are completed for a period up to 5 years with an option of granting relief for additional years based on whether the structure creates new residential units, provides for affordable housing or is listed on the National Register of Historic Places. The City Council reviews applications for tax relief on a case by case basis and approvals are subject to covenants protecting the public benefits created through the improvements. The tax relief can be terminated for failure to adhere to the terms of the covenants.

For the year ended June 30, 2016, the City abated property taxes under RSA 79-E totaling \$2,663. This relief stems from the application from Under the Mountain, LLC for 5 years of tax relief under 79-E approved by the City Council on May 5, 2014 for façade and interior improvements at 354 Central Street (former Northway Bank building).

City of Franklin, New Hampshire
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3-C Other Receivables

Other receivables at June 30, 2016, consisted of accounts (billings for water, sewer, police details, ambulance, transfer station, and other user charges), and intergovernmental amounts arising from grants.

Receivables are recorded on the City's financial statements to the extent that the amounts are determined to be material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and collectability.

Amounts receivable at June 30, 2016 are as follows:

	Governmental	Proprietary
Accounts	\$ 669,328	\$865,354
Intergovernmental	1,044,833	1,348,780
Voluntary liens	58,246	-
Less: allowance for uncollectible or unavailable amount	(80,617)	(36,961)
Net receivables	\$1,691,790	\$2,177,173

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
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3-D Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance, Beginning	Additions	Disposals	Balance, Ending
Governmental activities:				
At cost:				
Not being depreciated:				
Monuments	61,000			61,000
Land	905,806	413,400	90,702	1,228,504
Construction in progress	398,718	34,782	306,307	127,193
Total capital assets not being depreciated	1,365,524	448,182	397,009	1,416,697
Being depreciated:				
Land improvements	213,226			213,226
Buildings	24,485,399	472,377		24,957,776
Machinery and equipment	7,792,270	622,358		8,414,628
Infrastructure	3,038,613	160,995		3,199,608
Total capital assets being depreciated	35,529,508	1,255,730	0	36,785,238
Total all capital assets	36,895,032	1,703,912	397,009	38,201,935
Less accumulated depreciation:				
Land improvements	51,295	8,903		60,198
Buildings	12,507,552	677,703		13,185,255
Machinery and equipment	5,360,774	446,055		5,806,829
Infrastructure	961,017	120,275		1,081,292
Total accumulated depreciation	18,880,638	1,252,937	0	20,133,575
Net book value, all capital assets	18,014,394	450,976	397,009	18,068,361
Business-type activities:				
At cost:				
Not being depreciated:				
Land	65,148			65,148
Construction in progress	103,721	230,249		333,970
Total capital assets not being depreciated	168,869	230,249	0	399,118
Being depreciated:				
Buildings	552,262	5,089		557,351
Machinery and equipment	735,836	251,433		987,269
Infrastructure	23,226,379	532,903		23,759,282
Total capital assets being depreciated	24,514,477	789,424	0	25,303,901
Total all capital assets	24,683,346	1,019,673	0	25,703,019
Less accumulated depreciation:				
Buildings	111,490	18,115		129,605
Machinery and equipment	373,365	60,414		433,779
Infrastructure	5,117,474	373,137		5,490,611
Total accumulated depreciation	5,602,329	451,666	0	6,053,995
Net book value, all capital assets	19,081,017	568,007	0	19,649,024

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
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3-D Capital Assets, continued

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 44,051
Public Safety	247,470
Highways and streets	262,135
Garage	10,434
Sanitation	5,333
Culture and recreation	94,262
School district	589,251
Total depreciation expense - governmental activities	<u>\$ 1,252,937</u>
Business-type activities:	
Water	\$ 387,609
Sewer	64,057
Total depreciation expense - business-type activities	<u>\$ 451,666</u>

3-E Prepaid Items

Prepaid items at June 30, 2016, totaling \$73,711, consisted of the following paid in the current period to benefit the following fiscal year governmental activities:

Purpose	Amount
Software support	16,288
Maintenance contracts	3,287
Services	1,033
Mutual Fire aid	30,698
Insurance	8,282
Dues	3,894
Postage	1,038
Employee costs	1,255
Prepaid Gas Vouchers	47
Training	6,457
Expendable trusts	1,300
Subscription	133
Total	73,711

3-F Interfund Balances and Transfers

Interfund balances at June 30, 2016 consist of interfund loans, services provided, reimbursements or budgetary transfers. The composition of interfund balances as of June 30, 2016 is as follows:

Fund	Due From	Due To
General	702,238	432,925
Capital Projects	-	-
Water	-	175,940
Sewer	329,493	-
Pass Through Grant	-	1,385
Parks & Recreation	38,679	-
Outside Police Detail	29,462	-
Library	28,996	-
Expendable Trusts	3,295	-
Engineering Escrows	2,000	-
Food Service	-	521,378
Other Library Trusts	-	2,534
Scholarships	-	1,000
Charity	1,000	-
Totals	1,135,163	1,135,163

City of Franklin, New Hampshire
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3-F Interfund Balances and Transfers, continued

Interfund transfers during the year were comprised of the following:

Fund	Transfer In	Transfer Out
General	18,357	344,847
Food Service	83,463	
DARE	500	-
Conservation	400	1,200
Heritage	400	-
Fuel Depot	-	757
Expendable Trusts	-	12,700
Library	299,452	-
Odeff Trust	-	3,700
Buswell Trust	-	33,319
Other Library Trusts	-	6,049
Totals	402,571	402,571

3-G Unearned Revenue

Governmental Funds - Unearned revenue of \$7,170,754 at June 30, 2016 largely consists of property taxes levied but not due until the subsequent year (\$6,527,650). In addition, \$43,951 related to recreation program fees collected in advance; \$40,885 related to dispatch fees collected in advance; \$505,000 proceeds from road note in advance of budgeted revenue; \$1 rent collected in advance; \$34,365 donations/grants collected in advance of expenditure; \$13,815 City Clerk/Tax Collector credits on accounts and \$5,087 related to student meal money collected in advance of the meals being served.

Proprietary Funds – There was no unearned revenue in the Water department or Sewer department at June 30, 2016.

3-H Long-Term Liabilities

Changes in the City's long-term obligations during the year ended June 30, 2016, consisted of the following:

	Balances, Beginning	Additions	Reductions	Balances, Ending
Governmental activities:				
General obligation bonds/notes	\$3,244,585	\$ 670,200	\$ (524,963)	\$3,389,822
Compensated absences	384,443	258,898	(249,402)	393,939
Capital leases	434,237	58,428	(203,625)	289,038
Landfill post closure care costs	179,637	-	(5,943)	173,695
Net pension liability	15,095,812	938,387	-	16,034,199
Other post employment benefits	1,496,895	497,106	(138,696)	1,855,305
Total - governmental activities	20,835,609	2,423,019	(1,122,629)	22,135,999
Business-type activities:				
General obligation bonds/notes	6,909,013	627,978	(291,490)	7,245,501
Compensated absences	17,652	19,130	(17,652)	19,131
Capital leases	-	199,895	(35,590)	164,305
Net pension liability	508,260	23,260	-	531,520
Total - business-type activities	\$7,434,925	\$ 870,263	\$ (344,732)	\$7,960,456

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
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3-H Long-Term Liabilities, continued

Long-term liabilities payable are comprised of the following:

	Original Amount	Issue Date	Maturity Date	Interest Rate %	Outstanding at June 30, 2016	Current Portion
Governmental Activities:						
<u>General obligation bonds/notes payable</u>						
Police Station	\$ 1,000,000	1998	2018	4.7-5.3	\$ 100,000	\$ 50,000
Courthouse	1,000,000	1999	2018	4.7-5.3	100,000	50,000
School Renovation	5,010,386	2001	2020	4.5-5.25	1,000,000	250,000
School Renovation	2,700,000	2006	2026	4.29	1,421,051	142,105
Ambulance	230,000	2012	2019	1.83	98,571	32,858
Roads	505,000	2016	2026	2.75	505,000	44,561
Streetlights	165,200	2016	2022	3.00	165,200	25,539
Total general obligation bonds/notes payable					3,389,822	595,063
<u>Capital leases payable</u>						
(2) 2015 Ford Interceptors - Police	54,089	2014	2017	5.45	27,006	13,145
(2) 2015 Ford Interceptors - Police	54,089	2014	2017	5.45	27,006	13,145
Energy Audit & Improvements	301,966	2015	2027	3.97	192,440	10,430
(2) 2016 Ford Interceptors - Police	58,428	2016	2019	5.70	42,585	13,416
Total capital leases payable					289,038	50,136
<u>Other long term obligations</u>						
Compensated Absences					393,939	254,664
Landfill Post Closure Care Costs					173,694	6,377
Net Pension Liability					16,034,199	-
Post Employment Benefits - Health					1,855,305	-
Total Governmental Activities					\$ 22,135,999	\$ 906,240
Business-Type Activities:						
<u>Bonds/notes payable</u>						
Sewer Revolving Loan	\$ 784,061	2006	2026	3.35	\$ 494,135	\$ 37,888
Water USDA Bond	3,645,000	2012	2040	2.25	3,124,280	130,180
Water Drinking Water State Revolving Fund	3,226,055	2012	2014	1.10	2,978,183	128,520
Water Drinking Water State Revolving Fund	20,925	2015	2017	1.00	648,903	648,903
Total bonds/notes payable					7,245,501	945,490
<u>Capital leases payable</u>						
2015 Volvo Excavator	199,895	2015	2020	2.72	164,305	31,121
Total capital leases payable					164,305	31,121
<u>Other long term obligations</u>						
Compensated Absences					19,130	19,130
Net Pension Liability					531,520	-
Total Business-Type Activities					\$ 7,960,456	\$ 995,742

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
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3-H Long-Term Liabilities, continued

The annual requirements to amortize all general obligation debt outstanding as of June 30, 2016, including interest payments, are as follows:

Annual Requirements To Amortize Governmental Funds' General Obligation Bonds/Notes Payable:

Fiscal Year Ending, June 30	Principal	Interest	Total
2017	595,063	133,824	728,887
2018	597,055	106,709	703,764
2019	499,103	82,188	581,291
2020	468,352	60,410	528,762
2021	220,519	45,584	266,103
2022-2026	1,009,732	107,357	1,117,089
Totals	3,389,822	536,072	3,925,894

Annual Requirements To Amortize Governmental Funds' Leases Payable:

Fiscal Year Ending, June 30	Principal	Interest	Total
2017	50,136	13,011	63,147
2018	53,290	10,399	63,689
2019	27,386	7,628	35,014
2020	13,464	6,282	19,746
2021	14,591	5,747	20,338
2022-2027	130,171	20,571	150,742
Totals	289,038	63,638	352,676

Annual Requirements To Amortize Proprietary Funds' General Obligation Bonds/Notes Payable:

Fiscal Year Ending, June 30	Principal	Interest	Total
2017	945,491	186,519	1,132,010
2018	301,847	170,382	472,229
2019	307,273	162,027	469,300
2020	312,870	153,501	466,371
2021	318,644	144,797	463,442
2022-2026	1,686,440	586,833	2,273,273
2027-2031	1,631,807	350,434	1,982,241
2032-2040	1,741,130	159,120	1,900,249
Totals	7,245,501	1,913,614	9,159,114

Annual Requirements To Amortize Proprietary Funds' Leases Payable:

Fiscal Year Ending, June 30	Principal	Interest	Total
2017	31,121	4,469	35,590
2018	31,968	3,623	35,590
2019	32,837	2,753	35,590
2020	33,730	1,860	35,590
2021	34,648	942	35,590
Totals	164,305	13,647	177,952

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
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3-H Long-Term Liabilities, continued

All debt is general obligation debt of the City, which is backed by its full faith and credit. Proprietary fund debt will be funded through user fees. All other debt will be repaid from general governmental revenues.

Accrued Landfill Post closure Care Costs

As required by state and federal laws and regulations, the City has constructed a final capping system on the River Street Landfill and completes annual ground water sampling and post closure reports. The Landfill stopped accepting waste in 1984 and the final capping system was completed in 1985. Remaining post closure care liability estimate of \$173,695 is reflected in the City's Government Wide Statement of Net position under governmental activities. Actual costs may differ due to inflation, changes in technology, or changes in regulations.

3-I State Aid to Water Pollution Projects

The City received from the State of New Hampshire the following amounts in the form of state aid to water pollution projects:

<u>Bond Issue</u>	<u>Amount</u>
Sewer Revolving Loan	\$600,584
Drinking Water State Revolving Fund	\$1,129,119

Under N.H. RSA Chapter 486, the City receives from the State of New Hampshire a percentage of the annual amortization charges on the original costs resulting from the acquisition and construction of sewage disposal facilities. At June 30, 2016, the City is due to receive the following annual amounts to offset debt payments:

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Amount</u>
2017	67,002
2018	67,256
2019	67,518
2020	67,789
2021	68,070
2021-2033	<u>771,421</u>
Total	<u>\$1,109,056</u>

3-J Operating Leases

The City has entered into operating leases for the use of photocopiers and shared postage machine. These leases are cancellable in the event of non- appropriation.

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
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3-K Fund Balance Components

The City's governmental fund balance components under GASB 54 are comprised of the following:

	General Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:			
Prepaid items	72,411	1,300	73,711
Inventory	177	10,886	11,063
Permanent fund principal	-	1,083,446	1,083,446
Restricted:			
Conservation	-	108,657	108,657
Fire	-	96,556	96,556
Library	-	509,793	509,793
Parks	-	101,989	101,989
Police	-	6,107	6,107
School	-	43,360	43,360
Committed:			
Conservation	-	7,852	7,852
Fire	1	-	1
Heritage	-	9,771	9,771
Buildings	136,597	-	136,597
Municipal services	182,743	-	182,743
Revaluation	4,943	-	4,943
Parks	62,205	34,774	96,979
Police	-	43,842	43,842
School	362,407	-	362,407
Tax Increment Financing			
District - Industrial Park	22,524	-	22,524
Assigned:			
Fire	13,253	-	13,253
General government	104,312	-	104,312
Municipal services	245,967	-	245,967
Police	96,519	-	96,519
Recreation	8,370	-	8,370
School	5,830	-	5,830
Unassigned	3,222,680	(10,886)	3,211,794
	4,540,940	2,047,446	6,588,386

Other governmental funds are an aggregate of several non-major individual funds. Refer to supplemental schedules provided after the notes section for breakdown of non-major individual funds.

NOTE 4 - OTHER MATTERS

4-A Pensions

The City participates in the New Hampshire Retirement System (the "System"), a cost-sharing multiple-employer defined benefit pension plan and trust established in 1967 by RSA 100-A:2 administered by a Board of Trustees. The plan is a contributory plan that provides service, disability, death and vested retirement benefits to members and their beneficiaries. Benefit provisions are established and may be amended by the New Hampshire State Legislature. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to New Hampshire Retirement System, 4 Chenell Drive, Concord, New Hampshire 03301.

The System is funded by contributions from both the employees and the City. Per RSA-100:16, plan member contribution rates are established and may be amended by the New Hampshire State legislature while the employer contribution rates are determined by the System Board of Trustees based on an actuarial valuation. Plan members are required to contribute 7.0%

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4-A Pensions, continued

(employees & teachers), 11.55% (certified police officer) and 11.8% (firefighter) of their covered salary. The City's contribution rates for the year ended June 30, 2016 were 11.17%, 15.67%, 26.38% and 29.16% of covered payroll for employees, teachers, police and fire, respectively. The City's contributions to the System for the years ending June 30, 2016, 2015, and 2014 were \$1,769,533, \$1,603,438, and \$1,540,331, respectively, equal to the required contributions for each year.

The City implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense information about the fiduciary net position of the New Hampshire Retirement System Cost-Sharing Multiple Employer Defined Benefit Pension Plan (NHRS) and additions to/deductions from NHRS's fiduciary net position have been determined on the same basis as they are reported by NHRS.

General Information about the Pension Plan

Plan description. The New Hampshire Retirement System (NHRS) is a public employee retirement system that administers one cost-sharing multiple-employer defined benefit pension plan (Pension Plan), a component unit of the State of New Hampshire, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans* – an amendment of GASB Statement No. 25.

The Pension Plan was established in 1967 by RSA 100-A: 2 and is qualified as a tax-exempt organization under Sections 401(a) and 501(a) of the Internal Revenue Code. The Pension Plan is a contributory, defined benefit plan providing service, disability, death and vested retirement benefits to members and their beneficiaries. Substantially all full-time state employees, public school teachers and administrators, permanent firefighters and permanent police officers within the State are eligible and required to participate in the Pension Plan.

The Pension Plan is divided into two member groups. State and local employees and teachers belong to Group I. Police and firefighters belong to Group II. All assets are held in a single trust and are available to pay retirement benefits to all members. Benefits available to each group are summarized below.

Group I members at age 60 or 65 (for members who commence service after July 1, 2011) qualify for a normal service retirement allowance based on years of creditable service and average final salary for the highest of either three or five years, depending on when their service commenced. The yearly pension amount is 1/60 or 1.667% of average final compensation (AFC), multiplied by years of creditable service. At age 65, the yearly pension amount is recalculated at 1/66 or 1.515% of AFC multiplied by years of creditable service.

Group II members who are 60, or members who are at least age 45 with at least 20 years of creditable service, can receive a retirement allowance at a rate of 2.5% of AFC for each year of creditable service, not to exceed 40 years. Members commencing service on or after July 1, 2011 or members who have a nonvested status as of January 1, 2012 can receive a retirement allowance at age 52.5 with 25 years of service or age 60. The benefit shall be equal to 2% of AFC, times creditable service up to 42.5 years. However, a member who commenced service on or after July 1, 2011 shall not receive a retirement allowance until attaining the age of 52.5, but may receive a reduced allowance after age 50 if the member has at least 25 years of creditable service where the allowance shall be reduced, for each month by which the benefit commencement date precedes the month after which the member attains 52.5 years of age by $\frac{1}{4}$ of 1% or age 60.

Members of both groups may qualify for vested deferred allowances, disability allowances and death benefit allowances subject to meeting various eligibility requirements. Benefits are based on AFC or earnable compensation and/or service.

Contributions. By Statute, the Board of Trustees of the System is responsible for the certification of employer contribution rates, which are determined through the preparation of biennial valuation of the System's assets by the System's actuary using the entry age normal cost method.

The employer contributions used in the schedules of employer allocations as of and for the years ended June 30, 2015 and 2014 are a component of total employer contributions presented in the System's financial statements for the corresponding periods.

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
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June 30, 2016

4-A Pensions, continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2016, the City reported a liability of \$16,034,199 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating members, actuarially determined. At June 30, 2015, the City's proportion was 0.41816497 percent, which was an increase of 0.00245387 from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City recognized pension expense of \$1,068,419. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ -	\$ 363,518
Changes of assumptions	-	-
Net differences between projected and actual earnings on pension plan investments	-	442,739
Changes in proportion and differences between employer contributions and proportionate share of contributions	210,554	215,489
Employer contributions subsequent to the measurement date	1,527,378	
	<u>\$ 1,737,932</u>	<u>\$ 1,021,746</u>

\$1,527,378 reported as deferred outflows of resources related to pensions resulting from Employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Amount
2017	\$ (324,502)
2018	(324,502)
2019	(324,502)
2020	187,328
2021	(25,015)
Thereafter	-
	<u>\$ (811,193)</u>

Actuarial assumptions. The collective pension liability was determined by a roll forward of the actuarial valuation as of June 30, 2014, using the following actuarial assumptions which, accordingly, apply to 2015 measurements:

Inflation	3.00%
Salary increases	3.75 - 5.8% average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 mortality table, projected to 2020 with Scale AA. The table includes a margin of 15%

City of Franklin, New Hampshire
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4-A Pensions, continued

for men and 17% for women for mortality improvements.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the most recent actuarial experience study, which was for the period July 1, 2005–June 30, 2010.

The long-term expected rate of return on pension plan investments was selected from a best-estimate range determined using the building block approach. Under this method, an expected future real return range is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. Following is a table presenting target allocations and long-term rates of return for 2015:

Asset class	Target allocation	Weighted average long-term expected real rate of return
Large Cap Equities	22.50%	3.00%
Small/Mid Cap Equities	7.50	3.00
Total domestic equity	30.00	
Int'l Equities (unhedged)	13.00	4.00
Emerging Int'l Equities	7.00	6.00
Total international equity	20.00	
Core Bonds	4.50	(0.70)
Short Duration	2.50	(1.00)
Global Multi-Sector Fixed Income	11.00	0.28
Unconstrained Fixed Income	7.00	0.16
High Yield Bonds	—	—
Global Bonds (unhedged)	—	—
Emerging Market Debt (external)	—	—
Total fixed income	25.00	
Private equity	5.00	5.50
Private debt	5.00	4.50
Real estate	10.00	3.50
Opportunistic	5.00	2.75
Total alternative investments	25.00	
Total	100.00%	

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. For purposes of the projection, member contributions and employer service cost contributions are projected based on the expected payroll of current members only. Employer contributions are determined based on the Pension Plan's actuarial funding policy and as required by RSA 100-A:16. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefits payments to determine the collective total pension liability.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

City of Franklin, New Hampshire
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4-A Pensions, continued

Employer's proportionate share of the net pension liability:	1% decrease to	Current single rate assumption	1% increase to
	6.75%	7.75%	8.75%
June 30, 2016	\$ 21,806,615	\$ 16,565,719	\$ 12,097,824
June 30, 2015	\$ 20,553,101	\$ 15,604,072	\$ 11,428,824

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued NHRS financial report.

Payables to the pension plan

The Employer reported payables to the defined benefit pension plan for regular monthly contributions in the amount of \$0 as of June 30, 2016.

Changes of assumptions. The change in assumptions about future economic or demographic factors or other inputs is amortized over the average of the expected remaining service life of active and inactive members, which is 5.3941 years in 2015. The first year of amortizations is recognized as pension expense and the remaining years are shown as either deferred outflows of resources or deferred inflows of resources.

4-B Post-Retirement Benefits - Other Post-Employment Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is recognition of an actuarially required contribution as an expense on the statement of revenues, expenditures and changes in net position when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that the entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net position over time.

Plan Description

The City provides its eligible retirees, including in some cases their beneficiaries (as governed by RSA 100-A:50), the ability to purchase health and prescription insurance at the City's group rates. Although the City does not supplement the cost of these plans, GASB Statement 45 requires the City to recognize the liability for the inclusion of any implicit rate subsidies afforded its retirees. This subsidy is generated as a result of the basic nature of insurance – one risk group subsidizes another to arrive at a blended premium, therefore current employees who are young and healthy subsidized the older retirees. As of July 1, 2015, there were approximately 21 retiree subscribers, including eligible spouses and dependents, and 247 active employees that meet the eligibility requirements. The plan does not issue a separate financial report.

Benefits Provided

The City provides medical, prescription drug and mental health/substance abuse benefits to retirees and their covered dependents. All active employees who retire from the City and meet the eligibility criteria will receive these benefits.

Funding Policy

Retirees of the City, including the dependent school district, contribute 100% of the cost of the health plan, as determined by the City. The City contributes to the remainder of the health plan costs on a pay-as-you-go basis.

Annual OPEB Costs and Net OPEB Obligation

The City's fiscal 2016 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an

City of Franklin, New Hampshire
Notes To The Basic Financial Statements
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4-B Post-Retirement Benefits - Other Post-Employment Benefits, continued

amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of 30 years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2016, the amount actually contributed to the plan and the change in the City's net OPEB obligation based on an actuarial valuation as of July 1, 2015.

Annual OPEB Cost and Net OPEB Obligation

	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012
Annual Required Contribution	523,806	501,619	477,225	394,350	375,510
Interest on Net OPEB Obligation	59,876	48,154	35,492	25,691	16,098
Adjustment to annual required contribution	(86,576)	(69,627)	(51,318)	(37,147)	(23,276)
Annual OPEB cost	497,106	480,146	461,399	382,894	368,332
Employer contributions (including subsidy)	(138,696)	(187,101)	(144,844)	(137,865)	(128,513)
Change in Net OPEB Obligation	358,410	293,045	316,555	245,029	239,819
Net OPEB Obligation - beginning of year	1,496,895	1,203,850	887,295	642,266	402,447
Net OPEB Obligation - end of year	1,855,305	1,496,895	1,203,850	887,295	642,266

Plan History

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Increase in Net OPEB Obligation
6/30/2016	497,106	28%	358,410
6/30/2015	480,146	39%	293,045
6/30/2014	461,399	31%	316,555
6/30/2013	382,894	36%	245,029
6/30/2012	368,332	35%	239,819

The City's net OPEB obligation as of June 30, 2016 is recorded as a component of long term liabilities on the City's Statement of Net position.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far in the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the City and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations.

In the July 1, 2015 actuarial valuation, the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advance funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend of 7% which decreases to a 5% long term rate for all healthcare benefits after 6 years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on an open basis.

City of Franklin, New Hampshire
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4-C Joint Venture

The City's dependent school district, presented as a blended component unit in these financial statements, is a member of a joint venture, School Administrative Unit #18 (SAU). The school district has an ongoing financial responsibility to fund the annual operations of the SAU along with the other members of the SAU. The SAU administers the operations of the member districts on a shared fee arrangement calculated under a cost allocation formula which is based on equalized property value and average daily enrollment of the member districts. The SAU does not accumulate financial resources and maintains minimal net position. The member districts and their respective financial responsibility to the SAU for the year ended June 30, 2016 are as follows:

Member School Districts	SAU Assessment	
	Percentage	Amount
Franklin	87.6	662,022
Hill	12.4	93,711
	100	755,733

The financial statement of School Administrative Unit #18 are available for public review, by request, at the SAU office at 119 Central Street, Franklin, NH 03235.

4-D Significant Effects of Subsequent Events

Subsequent Year Fund Balance Reserve of Contingent Obligations

For the year ended June 30, 2016, the Franklin school district, reported as a blended component unit in these City financial statements, determined that grant expenditures administered by School Administrative Unit #18 (SAU), on behalf of grant program services and costs for the benefit of the school district for years prior to June 30, 2012, were over-expended. The over-expenditure was absorbed by the General Fund of the School Administrative Unit; however, management has estimated that the District may likely be liable to the School Administrative Unit directly for the over-expenditures or indirectly via the annual School Administrative Unit assessment. In prior years the District had reserved \$250,000; however, at June 30, 2016, the reserve has been adjusted to \$100,000 to more accurately reflect the district's potential liability to the SAU.

REQUIRED SUPPLEMENTARY INFORMATION

City of Franklin, New Hampshire
Budgetary Comparison Schedule
General Fund
For the Fiscal Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Beginning Budgetary Fund Balance	\$ 276,981	\$ 917,452	\$ 3,734,955	\$ 2,817,503
Resources (Inflows)				
Taxes:				
Property	11,307,039	11,319,358	11,248,591	(70,767)
Other	234,450	223,450	248,463	25,013
Licenses, Permits & Fees	1,080,180	1,080,180	1,232,630	152,450
Intergovernmental:				
Highway Block Grant	174,491	197,444	202,177	4,733
Meals & Rooms Tax	408,298	407,121	407,121	0
Forest Land Reimbursement	39	73	73	(0)
Flood Control Reimbursement	39,669	52,263	52,263	(0)
Department of Agriculture	-	50,000	17,750	(32,250)
Department of Education	8,894,677	8,894,677	8,956,326	61,649
Department of Environmental Services	-	-	-	-
Department of Justice	48,000	48,000	56,841	8,841
Department of Health & Human Services	33,481	127,231	121,636	(5,595)
Office of Emergency Management	-	432,899	143,138	(289,761)
Other Grant	2,500	11,248	20,686	9,438
Charges for Services:				
City Clerk/Tax Collector	-	-	-	-
Finance	3,300	3,300	3,002	(298)
Fire	454,500	454,500	410,206	(44,294)
Municipal Services	346,575	346,575	281,183	(65,392)
Planning & Zoning	4,500	4,500	6,022	1,522
Police	99,720	99,720	96,257	(3,463)
Recreation	136,000	136,000	182,232	46,232
School	529,498	529,498	545,659	16,161
Welfare	11,000	11,000	10,869	(131)
Interest	15,000	15,000	10,058	(4,942)
Sale of Municipal Property	35,000	35,000	31,354	(3,646)
Other	588,246	605,323	704,683	99,360
Transfers from Other Funds	4,900	270,062	189,519	(80,543)
Debt Proceeds	57,896	223,096	165,200	(57,896)
Amounts Available for Appropriation	24,785,940	26,494,970	29,078,894	2,583,924
Charges to Appropriations (Outflows)				
General Government:				
Executive	409,751	495,273	385,189	110,084
Election, Registration & Vital Statistics	201,582	201,582	190,382	11,200
Financial Administration	459,581	459,581	457,633	1,948
Planning & Zoning	164,981	164,981	146,929	18,052
Insurance & Legal	120,244	120,244	114,964	5,280
Buildings	153,298	153,298	214,174	(60,876)
Other	26,346	26,346	23,491	2,855
Public Safety:				
Police	2,873,952	2,940,393	2,746,904	193,489
Fire, Ambulance, Emergency Management	2,191,548	2,393,645	2,307,706	85,939
Municipal Services:				
Administration	111,831	111,831	94,008	17,823
Highways, Streets & Bridges	1,279,178	1,796,098	1,289,573	506,525
Solid Waste	947,681	947,681	959,639	(11,958)
Health Agencies & Hospitals	74,879	74,879	66,379	8,500
Mayor's Drug & Alcohol Abuse Task Force	33,481	127,231	121,636	5,595
Welfare	131,733	131,733	82,313	49,420
Culture & Recreation:		-		
Parks & Recreation	560,632	560,632	591,993	(31,361)
Economic Development	45,000	45,000	45,000	-
Other	10,500	10,500	10,970	(470)
Capital Outlay	128,237	726,612	493,095	233,517
Debt Service:		-		
Principle	492,105	492,105	492,105	-
Interest	137,823	137,823	137,394	429
Other	-	-	-	-
School	13,879,589	14,025,514	13,767,548	257,966
Transfers to Other Funds	351,988	351,988	447,824	(95,836)
Total Charges to Appropriations	24,785,940	26,494,970	25,186,850	1,308,120
Ending Budgetary Fund Balance	\$ -	\$ -	\$ 3,892,043	\$ 3,892,043

City of Franklin, New Hampshire
Required Supplementary Information
As Of And For The Fiscal Year Ended
June 30, 2016

Pensions

In accordance with GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions*, the city is required to disclose historical data for each of the prior ten years within the following schedules:

- **Schedule of the City's Proportionate Share of Net Pension Liability**
- **Schedule of City Contributions**

The information presented in the *Schedule of the City's Proportionate Share of Net Pension Liability* is determined as of the measurement date of the collective net pension liability of the PLAN.

The information presented in the *Schedule of City Contributions* is determined as of the EMPLOYER's most recent fiscal year-end.

Subsequent year's information will be added as it becomes available until the ten-year requirement is met.

Schedule of the City's Proportionate Share of NHRS Net Pension Liability
Year Ended June 30, 2016

	2014	2015	2016
City's proportion of the net pension liability (asset)	0.41894600%	0.41571110%	0.41816497%
City's proportionate share of the net pension liability (asset)	\$ 18,030,533	\$ 15,604,072	\$ 16,565,713
City's covered-employee payroll	\$ 10,053,006	\$ 10,008,030	\$ 10,608,210
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	179.35%	155.92%	156.16%
Plan fiduciary net position as a percentage of the total pension liability	59.81%	66.32%	65.47%

Schedule of City Pension Contributions

	2014	2015	2016
Statutorily required pension contribution	\$ 1,349,622	\$ 1,406,531	\$ 1,527,378
Contributions reported by the PLAN	(1,348,663)	(1,402,894)	NA
Contribution deficiency (excess)	\$ 959	\$ 3,637	NA
City's covered-employee payroll	\$ 10,053,006	\$ 10,008,030	\$ 10,608,210
Contributions as a percentage of covered-employee payroll	13.43%	14.05%	14.40%

**City of Franklin, New Hampshire
Required Supplementary Information
As Of And For The Fiscal Year Ended
June 30, 2016**

Other Post-Employment Benefits

The city is required to prepare its financial statements in accordance with accounting principles generally accepted in the United States. Accordingly, the city is required to disclose its obligations for post-employment benefits. In addition to pensions, these benefits include health insurance paid on behalf of retirees. Guidance for the disclosure required is contained in Governmental Accounting Standards Board Statement No. 45 - "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions" (GASB No. 45). As part of that disclosure the city is required to include as required supplementary information the Schedule of Funding Progress for the most recent actuarial valuation and the two preceding valuations.

**Schedule of Other Post-Employment Benefits Funding Progress
Year Ended June 30, 2016
(Unaudited)**

Actuarial Value Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll c	UAAL as a % of Covered Payroll ((b-a)/c)
7/1/2015	0	4,706,651	4,706,651	0.0%	10,608,210	44.4%
7/1/2013	0	4,110,940	4,110,940	0.0%	10,385,109	39.6%
7/1/2011	0	3,083,840	3,083,840	0.0%	10,158,174	30.4%
7/1/2009	0	2,147,493	2,147,493	0.0%	7,750,077	27.7%

OTHER SUPPLEMENTARY INFORMATION

City of Franklin, New Hampshire
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2016

	Franklin Public Library	School Service	Food Fund	Grant Fund	Conservation Commission	Drug Forfeiture	Dare Fund	Heritage Commission	Expendable Trusts	Parks and Recreation	Outside Detail	Total Special Revenue Funds
ASSETS												
Assets												
Cash and equivalents	\$ 261,458	\$ 90,921	\$ -	\$ -	-	\$ 6,107	\$ 4,635	\$ -	\$ 108,657	\$ -	\$ -	\$ 471,778
Investments	-	-	-	-	7,852	-	-	9,771	137,747	-	-	155,369
Receivables, net of allowances for uncollectables	-	-	-	-	-	-	-	-	-	-	9,746	9,746
Intergovernmental Receivable	-	-	-	-	-	-	-	-	-	-	-	-
Interfund receivable	-	424,658	2,933	-	-	-	-	-	-	-	-	427,591
Prepaid items	28,996	-	-	-	-	-	-	-	3,295	38,679	29,462	100,432
Inventory	-	-	-	-	-	-	-	-	1,300	-	-	1,300
Other assets	-	10,886	-	-	-	-	-	-	-	-	-	10,886
Total assets	290,454	526,465	2,933	2,933	7,852	6,107	4,635	9,771	250,999	38,679	39,207	1,177,101
LIABILITIES AND FUND BALANCES												
Classified Liabilities												
Accounts payable	4,376	-	-	1,548	-	-	-	-	-	3,905	-	9,829
Contracts payable	-	-	-	-	-	-	-	-	-	-	-	-
Accrued payroll & benefits	2,723	-	-	-	-	-	-	-	-	-	-	2,723
Intergovernmental payable	-	-	-	-	-	-	-	-	-	-	-	-
Interfund payable	-	521,378	1,385	-	-	-	-	-	-	-	-	522,763
Unearned Revenue	-	5,087	-	-	-	-	-	-	-	-	-	5,087
Total liabilities	7,099	526,465	2,933	2,933	-	-	-	-	-	3,905	-	540,402
Fund balances:												
Nonspendable:												
Inventory/Prepaid	-	10,886	-	-	-	-	-	-	1,300	-	-	12,186
Restricted:												
Conservation	-	-	-	-	-	-	-	-	108,657	-	-	108,657
Fire	-	-	-	-	-	-	-	-	96,556	-	-	96,556
Library	-	-	-	-	-	-	-	-	-	-	-	-
283,355	-	-	-	-	-	-	-	-	-	-	-	283,355
Parks	-	-	-	-	-	-	-	-	1,126	-	-	1,126
Police	-	-	-	-	-	-	-	-	-	-	-	-
School	-	-	-	-	-	6,107	-	-	-	-	-	6,107
Committed:												
Conservation	-	-	-	-	7,852	-	-	-	-	-	-	7,852
Heritage	-	-	-	-	-	-	-	9,771	-	-	-	9,771
Parks	-	-	-	-	-	-	-	-	-	34,774	-	34,774
Police	-	-	-	-	-	-	4,635	-	-	-	39,207	43,842
School	-	-	-	-	-	-	-	-	-	-	-	-
Assigned:												
School	-	-	-	-	-	-	-	-	-	-	-	-
School	-	-	-	-	-	-	-	-	-	-	-	-
Unassigned	-	(10,886)	-	-	-	-	-	-	-	-	-	(10,886)
Total fund balances	283,355	0	-	-	7,852	6,107	4,635	9,771	250,999	34,774	39,207	636,700
Total liabilities and fund balances	\$ 290,454	\$ 526,465	\$ 2,933	\$ 2,933	\$ 7,852	\$ 6,107	\$ 4,635	\$ 9,771	\$ 250,999	\$ 38,679	\$ 39,207	\$ 1,177,101

City of Franklin, New Hampshire
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Fiscal Year Ended June 30, 2016

	Franklin Public Library	School Service	Food Service	Grant Fund	Conservation Commission	Drug Forfeiture	Dare Fund	Heritage Commission	Expendable Trusts	Parks and Recreation	Outside Police Details	Total Special Revenue Funds
Revenues												
Revenues Gov Funds												
Intergovernmental	\$ -	\$ 396,537	\$ 34,518	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 431,055
Charges for Services	3,047	149,708	-	-	-	-	-	-	-	19,417	28,200	200,371
Interest	24	40	-	14	14	5	1	14	8,200	-	-	8,297
Change in Fair Market	-	-	-	-	-	-	-	-	(2,254)	-	-	(2,254)
Miscellaneous	1,627	-	-	-	-	657	1,500	50	10,384	5,983	-	20,201
Total revenues	4,698	546,285	34,518	14	14	662	1,501	64	16,330	25,399	28,200	657,671
Expenditures												
Public Safety	-	-	-	33,912	-	1,571	564	-	193	-	21,070	57,310
Culture and recreation	281,211	-	-	-	-	-	-	-	-	18,470	-	299,682
Conservation	-	-	-	-	363	-	-	-	-	-	-	363
School	-	640,059	-	-	-	-	-	-	9,233	-	-	649,292
Capital Outlay	-	-	607	-	-	-	-	-	-	-	-	607
Total expenditures	281,211	640,059	34,518	363	363	1,571	564	-	9,425	18,470	21,070	1,007,253
Excess (deficiency) of revenues over (under) expenditures	(276,514)	(93,774)	-	(349)	(349)	(909)	937	64	6,904	6,929	7,130	(349,582)
Other financing sources (uses):												
Transfers in	299,452	83,463	-	400	400	-	500	400	-	-	-	384,215
Transfers Out	-	-	-	(1,200)	(1,200)	-	-	-	(12,700)	-	-	(13,900)
Total other financing sources and uses	299,452	83,463	-	(800)	(800)	-	500	400	(12,700)	-	-	370,315
Net change in fund balances	22,938	(10,311)	-	(1,149)	(1,149)	(909)	1,437	464	(5,796)	6,929	7,130	20,732
Fund balances, beginning	260,417	10,311	-	9,001	9,001	7,016	3,198	9,307	256,795	27,845	32,078	615,967
Fund balances, ending	\$ 283,355	\$ -	\$ -	\$ 7,852	\$ 7,852	\$ 6,107	\$ 4,635	\$ 9,771	\$ 250,999	\$ 34,774	\$ 39,207	\$ 636,700

City of Franklin, New Hampshire
Combining Balance Sheet
Nonmajor Permanent Funds
June 30, 2016

	Odell Park	Other General Trusts	Library Buswell Trust	Other Library Trusts	Total Permanent Funds
ASSETS					
Assets					
Investments	\$ 177,433	\$ 724,693	\$ 812,724	\$ 334,957	\$ 2,049,807
Interfund receivable	-	0	-	-	0
Intergovernmental receivable	-	-	-	-	-
Total Assets	<u>\$ 177,433</u>	<u>\$ 724,693</u>	<u>\$ 812,724</u>	<u>\$ 334,957</u>	<u>\$ 2,049,807</u>
LIABILITIES AND FUND BALANCES					
Classified Liabilities					
Due to Others	-	636,526	-	-	636,526
Interfund Payable	-	-	-	2,534	2,534
Total Liabilities	<u>-</u>	<u>636,526</u>	<u>-</u>	<u>2,534</u>	<u>639,060</u>
Fund balances:					
Nonspendable:					
Permanent fund principal	139,052	25,685	633,979	284,730	1,083,446
Restricted:					
Library	-	-	178,745	47,693	226,438
Parks	38,381	62,482	-	-	100,863
Total fund balances	<u>177,433</u>	<u>88,167</u>	<u>812,724</u>	<u>332,423</u>	<u>1,410,747</u>
Total liabilities and fund balances	<u>\$ 177,433</u>	<u>\$ 724,693</u>	<u>\$ 812,724</u>	<u>\$ 334,957</u>	<u>\$ 2,049,807</u>

City of Franklin, New Hampshire
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Permanent Funds
For the Fiscal Year Ended June 30, 2016

	Odell Park	Other General Trusts	Library Buswell Trust	Other Library Trusts	Total Permanent Funds
Revenues					
Revenues Gov Funds					
Interest/Dividends	\$ 9,712	\$ 3,668	\$ 24,625	\$ 18,234	\$ 56,239
Change in Fair Value	(6,927)	(2,652)	1,489	(13,077)	(21,168)
Miscellaneous	-	-	-	-	-
Total revenues	2,785	1,016	26,113	5,157	35,071
Expenditures:					
Functional Expenditures					
General government	326	123	12,962	614	14,025
Total expenditures	326	123	12,962	614	14,025
Excess of revenues over expenditures	2,459	893	13,151	4,544	21,046
Other financing sources (uses):					
Transfers In	-	-	-	-	-
Transfers Out	(3,700)	-	(33,319)	(6,049)	(43,067)
Total other financing sources (uses)	(3,700)	-	(33,319)	(6,049)	(43,067)
Net change in fund balances	(1,241)	893	(20,168)	(1,505)	(22,021)
Fund balances, beginning	178,674	87,274	832,892	333,928	1,432,768
Fund balances, ending	\$ 177,433	\$ 88,167	\$ 812,724	\$ 332,423	\$ 1,410,747

FEDERAL AWARDS SUPPLEMENTARY INFORMATION

GRZELAK AND COMPANY, P.C.

Certified Public Accountants

Members – American Institute of CPA's (AICPA)
Member – AICPA Government Audit Quality Center (GAQC)
Member – AICPA Private Company Practice Section (PCPS)
Members – New Hampshire Society of CPA's

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and City Council
City of Franklin
Franklin, New Hampshire

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Franklin, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Franklin's basic financial statements, and have issued our report thereon dated June 20, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Franklin's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Franklin's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Franklin's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Franklin's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Grzelak and Co., P.C.

GRZELAK & COMPANY, P.C., CPA's

Laconia, New Hampshire

June 20, 2017

GRZELAK AND COMPANY, P.C.

Certified Public Accountants

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Member – AICPA Government Audit Quality Center (GAQC)
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Honorable Mayor and City Council
City of Franklin
Franklin, New Hampshire

Report on Compliance for Each Major Federal Program

We have audited City of Franklin's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City of Franklin's major federal programs for the year ended June 30, 2016. City of Franklin's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Franklin's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Franklin's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City of Franklin's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Franklin, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of City of Franklin, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Franklin's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Franklin's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Grzelak and Co., P.C.

GRZELAK & COMPANY, P.C., CPA's

Laconia, New Hampshire
June 20, 2017

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF FRANKLIN, NEW HAMPSHIRE

Schedule of Expenditures of Federal Awards Year Ended June 30, 2016

Federal Grantor / Pass-Through Grantor Program or Cluster Title	Federal CFDA #	Pass Through ID #	Expenditures of Federal Awards
U.S. DEPARTMENT OF AGRICULTURE			
Direct			
Rural Business Development Grant	10.351	15-154-CDHS	\$ 17,750
Community Facilities Loans and Grants	10.766	34-007-026000292	12,200
			<u>29,950</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through the Community Development Finance Authority			
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	15-154-CDHS	607
			<u>607</u>
U.S. DEPARTMENT OF JUSTICE			
Direct			
Violence Against Women Formula Grants	16.588	2015W098	14,000
Violence Against Women Formula Grants	16.588	2016W098	15,000
			<u>29,000</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through the NH Highway Safety Agency			
State and Community Highway Safety	20.600	315-15B-011	409
State and Community Highway Safety	20.600	315-16B-044	437
State and Community Highway Safety	20.600	315-16B-083	8,748
			<u>9,594</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY OFFICE OF WATER			
Passed through the NH Department of Environmental Services			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	0851010-04	627,978
			<u>627,978</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Direct			
Emergency Management Performance Grants	97.042	2013-EP-00057-S01	2,722
Emergency Management Performance Grants	97.042	2013-EP-00057-S01	30,600
Assistance to Firefighters Grant	97.044	EMW-2014-FO-00049	129,524
Passed through the NH Department of Emergency Management			
Homeland Security Grant Program	97.039	FEMA-4105-DR-NH-2R	13,614
Homeland Security Grant Program	97.067	EMW-2014-SS-00070-S01	33,912
			<u>210,372</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the NH Department of Health and Human Services			
Drug-Free Communities Support Program Grants	93.276	1H79SP017024-01	52,263
Drug-Free Communities Support Program Grants	93.276	2H79SP017024-06	69,373
			<u>121,636</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,029,137</u>

The accompanying notes are an integral part of this schedule.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY OF FRANKLIN, NEW HAMPSHIRE

Notes to Schedule of Expenditures of Federal Awards June 30, 2016

1. BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal award activity of the City of Franklin under programs of the federal government for the year ended June 30, 2016. The City of Franklin's reporting entity is defined in Note 1 to the City's basic financial statements. The information in the Schedule of Expenditures of Federal Awards is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Guidance, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Expenditures of Federal Awards presents only a selected portion of the operations of the City of Franklin and is not intended to and does not present the financial position or changes in net position of the City of Franklin.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting within the governmental funds (general and special revenue) of the City. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The expenditures reported in the Schedule of Expenditures of Federal Awards are recognized following the applicable cost principles of OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments (codified in 2 CFR Part 225), or Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Guidance, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and include, but are not limited to, expenditure transactions associated with grants, cost reimbursement grants and contracts, and the receipt or use of program income.

3. RELATIONSHIP AND RECONCILIATION TO THE BASIC FINANCIAL STATEMENTS

The total expenditures of federal awards per the accompanying schedule of expenditures of federal awards reconciles to the Statement of Revenues, Expenditures and Changes in Fund Balances – Major and Other Governmental Funds as follows:

Schedule of Expenditures of Federal Awards	\$ 1,029,137
 Statement of Revenues, Expenditures, and Changes in Fund Balances	
Major Funds	
General Fund	
VAWA Grants	\$ 29,000
Drug and Alcohol Task Force	121,636
Safe Commute Patrols	409
Haynes Brook Culvert	13,614
Firefighters Grant	129,524
Rural Tech Assistance	17,750
STEP Patrols	437
EMPG Trailer and Digital Message Board	33,322
Wheel Chair Lift	12,200
Speed Trailers	8,748
Water Fund - Storage Tank	627,978
Nonmajor Funds	
Grants Fund - CDBG	34,519
	\$ 1,029,137

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY OF FRANKLIN, NEW HAMPSHIRE

Schedule of Findings and Questioned Costs 1 - Summary of Auditor's Results June 30, 2016

Financial Statements

The type of auditor's report issued – Unmodified – All Reporting Units

Internal control over financial reporting:

- Material weaknesses identified – No.
- Significant deficiencies identified – No.
- Noncompliance material to financial statements noted? – No.

Federal Awards

Internal control over major programs:

- Material weaknesses identified – No.
- Significant deficiencies identified – None Reported.

Type of auditor's report issued on compliance for major programs - Unmodified.

Are there any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Guidance, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 2 CFR 200.516 Audit Findings – No.

Identification of major programs:

- CFDA # 66.468 - Capitalization Grants for Drinking Water State Revolving Funds

Dollar Threshold used to distinguish between type A and type B Programs - \$750,000.

Auditee qualified as a low-risk auditee – No.

CITY OF FRANKLIN, NEW HAMPSHIRE

Schedule of Findings and Questioned Costs 2 - Financial Statement Findings June 30, 2016

There were no findings relating to the financial statements required to be reported by standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

CITY OF FRANKLIN, NEW HAMPSHIRE

Schedule of Findings and Questioned Costs 3 – Federal Award Findings and Questioned Costs June 30, 2016

There we no findings or questioned costs required to be reported under Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Guidance, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 2 CFR 200.516 Audit Findings.

